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ASQUITH: THE MASTER STATESMAN

BY THE EDITOR

Has England found herself?

Two short years ago this would have been the idlest of questions. The whole nation was in turmoil. Class was arrayed against class in a spirit of bitterness approaching hate. Demagogism was rampant against privilege, and privilege, in turn, aroused at last from confident assurance of actual possession, was become violent. The burdens of taxation were being shifted to backs able to bear them. New definitions were being found for "vested rights." Titles to great tracts of land were openly questioned. Monarchs of bygone days had granted them, to be sure; but had the earth, the source of very existence, ever been the monarchs' to give? Granting the validity accorded by usage to prolonged occupancy and conceding the futility of creating anarchy in ownerships, did not a moral right still inhere in the people to take to themselves by indirection the advantages of which they had been deprived by the favor of man, contrary to the law of nature?

These were the questions being pushed home to millions of minds from which sustenance had been withheld so long as to render them incapable of reasoning and to leave only growing comprehension of the power of numbers. The temporizing policy of successive ministries of pampering, in-

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stead of educating, the masses was finding its inevitable consequence. The proletariat was waxing insolent; labor, making exorbitant demands, was become a bully; and the commonwealth which had grown to be the most powerful in the world by overthrowing tyranny after tyranny, stood menaced by the worst of despotisms—that of a half-educated, *untrained, intolerant populace.*

The peril not only to the British Empire, but to theoretically free and well-ordered institutions, even to Saxon civilization, was both real and imminent. But realization came slowly to those who considered themselves most deeply concerned and most unjustly wronged by the sudden, world-wide on-sweep of democracy. For more than a century the " governing class " had not ceased for an instant to rule. Nominal authority had passed with suspicious regularity and ready acquiescence back and forth from one political party to another. Genius embodied in a Bright or a Gladstone had extorted an occasional though reluctant and hardly more than negligible, concession. But the finality of decision still lay and was expected to remain forever in a House of Lords, which long since had forfeited the respect rightfully due a cultured, trained, and patriotic aristocracy by taking to itself a swarm of titled tradesmen, who were only too glad to show disdain of their true class by truckling to their betters.

That a governmental anachronism such as this should exist for long, especially as a body of sheer obdurate resistance, in a community justly renowned for its intelligence, self-direction, and resolution, was an incredible supposition. And yet, so strong is tradition and so powerful the privilege hallowed by age from generation to generation, few of the class born, as they believed, to govern could, and of those none would, recognize the inevitableness of expansion of authority in the development of a race instinctively hostile to stagnation.

So it happened, but two short years ago, that Britain approached more closely to civil war than the vast majority of her own people suspected or than the smallest number of our countrymen ever dreamed. The many heralded " crises " in England had become subjects of passing jocularity in America, but those of us who were on the spot and cognizant of the true condition of affairs at the crucial moment had no illusions. The unduly exploited specter of Germany making wanton assault was but a fantastic imagining when contrasted with the real peril of the railway strike of 1910. It

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was then, when the opposing forces stood looking indomitably into each other's eyes, awaiting only the lighting of a match to start the conflagration, that England required and—in Herbert Henry Asquith—found a master.

The Press of England, unlike that of America, has not yet broken the shackles of partisanship. A large majority of the public journals, moreover, are Conservative, and those that are not are generally more Radical than the present Prime Minister. It still remains, therefore, for discriminating History to accord due honor to the man whom the direful occasion found ready to perform his part with a courage that ignored consequences to party or to self. Suffice it for the present purpose to recall that the swift and sure effectiveness with which he countered the beginning of a labor revolution shrewdly designed to paralyze the country and starve its inhabitants has hardly been equaled in sheer force and adequacy. He flung "politics" to the winds; he never stopped to think how his action might influence voters; he turned his eyes squarely to the immediate need and, by a stroke of matured decisiveness, by declaring promptly and firmly that, if necessary, he would employ all the resources of the Government to keep the railways in running order, he averted the most appalling distress that could befall a densely populated land. All Englishmen of all parties and classes, strikers and non-strikers, employers and employed, rich and poor, but the poor especially, incurred a heavy debt of gratitude to their Prime Minister on that occasion for the grim determination which he manifested in facing and quelling a storm that would have daunted and might easily have overwhelmed one not made of the stoutest fiber.

And a great many Englishmen still owe him something more than gratitude. They owe him an apology for their egregious and generally wilful misreading of his character at a time when consideration of the common good should have induced strengthening of his hands. For Mr. Asquith had proven his mettle on more than one occasion. In the old days of his Home-Secretaryship when, the idol of Labor, he was stretching all the powers of his office in the cause of social and industrial reform and impressing upon the nation a new sense of its responsibilities, he, nevertheless, on three crucial questions—the release of the Irish dynamiters, the right of the unemployed to meet in Trafalgar Square, and the use of the military in quelling industrial riots—had

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not hesitated to stand up to Labor in the country and to his colleagues in the House of Commons when convinced that the public interest so required. His action in those exigencies should have disposed forever of the legend of Mr. Asquith's reputed flabbiness of temperament—a myth which, though circulated with design to hurt as late as two years ago, has now disappeared before an exhibition of resourcefulness and resolution hardly equaled, certainly unsurpassed, in constructive statesmanship of recent times.

Few appreciated the true significance, and practically none the surging possibilities, of the return of the Liberals to power in 1906. Like the Democrats of our own country in their recent day of triumph, they had been outside the breastworks for virtually twenty years. Like the Democrats, too, they lacked cohesiveness as a party organization, were inclined to factiousness, and seemed more likely than not to demonstrate sheer incapacity for efficient and successful government. Short shrift was allotted them by observers of acknowledged competence.

But the fates had taken charge of the melting-pot, and, to the surprise of all, Campbell-Bannerman, who was reckoned the white elephant of his party, quickly developed as the instrument of its salvation. The need of the moment was pacification rather than aggressive leadership, and, as a lubricant of the highest efficacy, the cheery, persuasive, and sympathetic Scotsman was quite the peer of our own McKinley.

"What," asked Mr. Asquith in his simple and touching tribute to his predecessor in the House of Commons, "what was the secret of the hold which in these later days Campbell-Bannerman unquestionably had on the admiration and affection of men of all parties and all creeds? If, as I think was the case, he was one of those men who require to be fully known to be justly measured, may I not say that the more we knew him, both followers and opponents, the more we became aware that on the moral as on the intellectual side he had endowments, rare in themselves, still rarer in their combination? For example, he was singularly sensitive to human suffering and wrong-doing, delicate and even tender in his sympathies, always disposed to despise victories won in any sphere by mere brute force, an almost passionate lover of peace. And yet we have not seen in our time a man of greater courage—courage not of the defiant

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or aggressive type, but calm, patient, persistent, indomitable. Let me, Sir, recall another apparent contrast in his nature. In politics I think he may be fairly described as an idealist in aim, and an optimist by temperament. Great causes appealed to him. He was not ashamed, even on the verge of old age, to see visions and to dream dreams. He had no misgivings as to the future of democracy. He had a single-minded and unquenchable faith in the unceasing progress and the growing unity of mankind."

Mr. Asquith was speaking of Campbell-Bannerman, but unconsciously, as those who know him best will testify, he delineated his own most admirable, though little recognized, traits and voiced his own high aspirations. But what he said of Campbell-Bannerman was true, and credit must not be withheld from one who performed so well his mission to pave the way for one greater and stronger than himself.

We have cited 1910 by way of effective contrast with the present time because that was the year which marked a turning-point in English history by riveting a personal authority which, in consequence of subsequent events, has now become pre-eminent. The first two years of the present administration were the more troublous and turbulent naturally because it was during that period that Mr. Asquith was feeling his cautious way in an endeavor to effect actual and positively essential reforms without rending the fabric of government and—well, to achieve ideals it is necessary to shatter idols. Those were bad days for England, but if Britain were to continue Britain they had to be.

Behold the results! Think, for a moment, of what the Liberals have accomplished in these few years! They have fought through two General Elections; they have broken forever the obstructive power of the House of Lords; they have passed the most revolutionary Budgets and profoundly modified the framework of the British Constitution; they have weathered at least three international crises when war seemed to be a probability of the next twenty-four hours; they have passed vast measures of social reform like the Insurance Act, the Old Age Pensions Act, and the Act establishing a national system of Labor Exchanges; they have struggled through two terrible explosions of industrial unrest that for a time threatened the paralysis of all British trade; they have been confronted with, and have resolutely tackled, the new and urgent problems of national defense and

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Imperial consolidation; and they are now disestablishing the Welsh Church and granting Home Rule to Ireland.

In all these achievements Mr. Asquith has played the foremost part; the main burden of deciding, of leading, of defending has fallen on him; and he has done his work with a masterful thoroughness that stamps his administration as the most efficient within the recollection of living man.

True, the promise of definite transformation of the famous Second Chamber into an elective and truly representative body yet awaits fulfilment, but there is no more doubt of the Prime Minister's ability, than of his purpose, to effect it. Already his conception has taken form in his mind and his programme is outlined. Accomplishment awaits only the well-gauged time for action.

To the question, then—Has England found herself?—the answer undoubtedly is yes. Two years ago the Tory opposition to broadened government was more than obdurate; it was furious. "No surrender" was the battle-cry. Hot-headed scions of great families in the House of Commons hooted at the people's ministers and howled down their Premier, to the music of applause from their ladyfolk. "Save the Constitution!" "Treason!" "Treason!" thundered Garvin week in and week out, to the delight of earls and countesses and self-expatriated Americans. Social ostracism was visited unsparingly, though amusingly, upon the Prime Minister and the most brilliant woman in England; no execration was too savage for the Chancellor of the Exchequer; Churchill was a renegade; Harcourt a time-server; Rufus Isaacs a marplot of a Jew; Redmond the most detestable of Fenians; Sir Edward Grey alone was deemed worthy of respect and consideration.

Now all, or nearly all, is changed. Public business is transacted without disturbance; Parliament meets, patiently performs the tasks allotted by its master, and quietly adjourns for the discomfiture of grouse and partridges; the voice of Garvin is become the merest echo; the entire opposition has awakened finally to realization of its impotence and, *mirabile dictu,* is beginning to be reconciled to the inevitable—to the saving, not the wrecking, of a National Constitution.

But one ray of hope has appeared upon the narrow Tory horizon in the past year—the speculation by Mr. Lloyd-George and Sir Rufus Isaacs in American Marconi shares.

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At last there was something tangible to grasp—a veritable scandal, which in truth would have spelled the downfall of a ministry not so many years ago. But standards of official virtue are not as high in England to-day as once they were, and, in the end, the masses, as ever, found little difficulty in palliating mere offenses against niceties of judgment and taste. After all, Lloyd-George had not profited from his imprudent ventures, and, even though he had, was he not still their eager champion? What could advantage from substituting Mr. Bonar Law in the place of authority? What could he offer in lieu of the Welshman's innumerable humanitarian projects? Had not the fogies of his own party forbidden him to enunciate even the broadest kind of a policy, to say nothing of a single specific proposal? So the tongues wagged on the corners, and the Conservative journals, true to the British tradition of national self-extermination, invariably began a criticism with an apology.

Nevertheless, the predicament forced upon the Prime Minister was worse than awkward; it was surcharged with menace to all his plans; nothing less than his own immaculateness and perfect poise could have borne him through. But time helped and patience won.

There is nothing so paradoxical as politics. At the risk of seeming presumptuous, we hazard the opinion—a view sustained incidentally by the latest bye-election—that the net political result of the Marconi revelations is an actual strengthening of the Liberal party. Not only has the figure of the real leader been brought into bold and advantageous relief, but at least one dangerously possible rival has found his true place as a most effective advocate unfitted by temperament for the assumption of highest responsibility. No doubt now remains that, if occasion should arise to find a successor for Mr. Asquith, the royal summons would go, not to Mr. Lloyd-George, but to Sir Edward Grey—a circumstance of the utmost value to a party still in the minority in England and sure to be dependent, when the present allies shall have drifted away, upon confidence rather than upon enthusiasm.

Americans will inquire: What manner of man is this who has become the conservator of a mighty empire? Intellectually, that is to say in sheer mental power and maturity, Senator Root alone among our statesmen could fairly be considered the compeer of Mr. Asquith, but in conception of the

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functions and duties of leadership Mr. Roosevelt bears the more striking resemblance. Just as in 1901 one could prophesy with the utmost assurance that, whatever else Mr. Roosevelt might prove to be in the White House, he would never be a President of the McKinley type, so it was impossible to doubt that Mr. Asquith's accession meant not only a new man, but a new appreciation of his office and a new way of utilizing its powers. The transition from the one Premier to the other, while not the same in degree, was essentially the same in kind as the transition from the one President to the other. Not that Mr. Roosevelt and Mr. Asquith have much in common. Far from it. One could more easily discover in them points of contrast than of comparison. The Prime Minister has none of the ex-President's fidgety activity, or of his sanguine, explosive impetuosity, or of his engaging many-sidedness, or of his passion for propounding estimable verities that hitherto had always been taken for granted, or of his headlong, hectoring temperament, or of his genius for advertisement. But he makes up for these distressing defects by being at least Mr. Roosevelt's equal in illimitable self-confidence and his superior in unvarying determination.

Mr. McKinley looked upon his office as a sort of conduit-pipe between Congress and the electorate; and though great things happened during his Presidency he can hardly be said to have directed them. He had no policies or convictions that he was not ready to abandon at the bidding of the populace—not because he was a timid man, but because the old tag *Vox populi, vox Dei* was something more than an old tag to him and summed up and satisfied his whole attitude toward democracy. Campbell-Bannerman did not minimize the privileges and opportunities of the Premiership so completely as all that. He made full and dexterous use of its negative prerogatives as a sort of court of appeal to which all men and all groups in the party might refer their disputes. But he was less a captain than an arbitrator; he allowed his Cabinet Ministers the widest possible latitude in the management of their own departments, and he regarded himself and his office as a center rather of accommodation than of leading. To men of Mr. Roosevelt's and Mr. Asquith's disposition such a view of their duties seems almost equivalent to abdication. Their instinct is to lead, not by following, by pushing from behind, but by going on in

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front; and the characteristic of their type is to govern rather by insistence than by persuasion and to prefer the most direct route as being probably the easiest.

In other respects the two have little in common. Mr. Asquith has none of Mr. Roosevelt's engaging frankness, but there never arises in one's mind the faintest doubt of his complete genuineness or his perfect freedom from any form of vanity. His reputed alienation from human sympathies, too, is wholly mythical. He would never think of kissing strange babies to curry favor with the electorate, but no man is more devoted to the children he knows or better loved by them in return. Lord Rosebery surprised England when he declared that Mr. Asquith possessed qualities of heart surpassing even his qualities of head, but to his intimates the assertion bore no trace of novelty. His emotions are less vivid and, of course, much less in evidence than Mr. Roosevelt's, but they live, nevertheless, as the most powerful, even dominating, attributes of a strong man's nature. The impression to the contrary, as with Senator Root, is due to well-nigh perfect control which finds its genesis partly in recognition of the dignity of his position, but chiefly in a wholly unaffected simplicity amounting almost to shyness. To one who recalls the custom enforced by Mr. Roosevelt of dinner guests rising from the table and standing humbly and dumbly till the President had taken his place, the contrast in the great room built for William Pitt in Downing Street, where not even a lull in conversation attends the entrance of the Prime Minister, is as pleasing as it is marked.

If Mr. Asquith loses something by his habitual self-repression, he also gains a great deal, notably in those rare moments when, as in paying tribute to the late King or more recently to the universally beloved Lyttleton, some deeper surge of feeling sweeps over his reserve and surprises and moves the House by its eloquent revelation.

But those occasions are few. Ordinarily, almost invariably, Mr. Asquith's speeches in the House, like those of Mr. Root in the Senate, are as good as any public speaking can be that is not oratory. They are models of clearness and precision; full of vigorous thought, of trenchant and sonorous diction, and admirably arranged; stroke follows upon stroke without hesitation and with direct and compelling force; and yet they are as unmistakably not oratory as

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George Eliot's verse is not poetry. The reason is that Mr. Asquith has himself almost too completely in hand, knows to a nicety just what he is going to say and how he is going to say it, and is never for a moment in any danger of being carried out of himself. The color and rhythm, the exaltation and abandon, of true oratory are not for him.

There is something, indeed, almost impersonal about Mr. Asquith's air on a public platform or when he rises to address the House. He seems independent of all emotional communion with his audience. It is symptomatic that he has never been known to make a bad speech or to be at a loss for an effective retort or unable to bring all his guns into action at a moment's notice. In every department of Parliamentary speaking—whether he is answering a supplementary question or unfolding a bill or winding up a debate—there is nobody in the House of Commons who approaches his level of sustained excellence. However damaging the attack upon the Government, there is a cheer of perfect confidence from the Liberal ranks when Asquith gets up to answer it. The stocky figure of medium height, the strong, clean-shaven, fresh-complexioned face that belies the white hair above it, give out an instant impression of assurance. With few gestures, squarely confronting the Opposition, the Prime Minister begins to speak. There is no appeal to passion in what he says, no loose generalities, no attempt at rhetoric, nothing over-subtle or bewildering. The sentences roll out with a hammer-like precision: the points made are direct and unambiguous; the argument never wanders; the humor is plain and intelligible; the language is massive without being ornate and virile without being violent; one gets the effect of some perfect machine producing an almost effortless fusillade of logical, ordered, deadly dialectics.

Like all public men who disdain to seek personal popularity by cultivating artifices, Mr. Asquith makes the mistake of doing things, or appearing to do them, too easily; one gets almost a sense of monotony from a survey of his unvarying triumphs. As a boy he captured all the school prizes; as a youth he won the blue riband of classical scholarship, the Balliol, became president of the Oxford Union, the famous debating society of the University, took the highest of degrees, carried off the Craven scholarship, and so impressed his professors and fellow-undergraduates, from Dr. Jowett

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downward, that perhaps no man ever left Oxford amid so many or such confident predictions of a brilliant future. A few years later, after a wholesome period of struggle and difficulty, he was recognized as one of the most effective of English advocates; in Parliament he attracted Gladstone's favoring notice with almost his first speech; step by step he has mounted up till he is now the most powerful man in the British Empire.

And it has all been done without theatricality or self-advertisement, with no attempt to dazzle his contemporaries or force their applause, and without the least assistance from those advantages of birth, wealth, and social connections that in England more, perhaps, than in any other country smooth the path of political and legal ambition. A Yorkshireman of Puritan stock, born in moderate circumstances, Asquith has made his own way in life. His career is as fully a structure of his own rearing as Lloyd-George's or John Burns's; he might stand, indeed, alongside of the Chancellor of the Exchequer and the President of the Local Government Board as a product and representative of that newer England in which men are judged and rewarded for what they are and do and not for the non-essentials of lineage or means or social position. He does not belong to, and has little sympathy or affiliation with, "the governing class"; and the distinction has enabled him to keep in touch and understanding with the newer movements long past the age when most Liberals are Whigs and most Whigs Conservatives.

As a statesman, Mr. Asquith undoubtedly will live in history as the conductor of a profound Constitutional revolution to a successful issue, and probably, as we have already suggested, as the true conservator of an empire's very existence in its time of gravest peril. As a man, we should say that to the minds of the many he, like Sir Robert Peel, appears and is likely to continue to appear as one who would have been the greatest of all British Premiers if his personality had equaled his performances, while to the few brought into closest contact he bears out to perfection the impression of Charles Fox expressed by Gibbon when he "admired the powers of a superior man blended with the softness and simplicity of a child—a human being perfectly exempt from the taint of malevolence, vanity, or falsehood."

THE EDITOR.

LONDON, *September, 1913.*

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A BRITISH VIEW OF THE MEXICAN PROBLEM

BY SYDNEY BROOKS

THE United States Government has the sympathy of all other Powers in its endeavors to find a passable solution for the complex and delicate problem that confronts it in Mexico. It is a sympathy that is not perhaps altogether devoid of a grain or two of somewhat malicious satisfaction, not merely the ordinary satisfaction that the French aphorist declared was always to be had from the misfortunes of even one's dearest friends, but a special satisfaction due to the policy and character of the United States. Mr. Bryan, it will be remembered, was no sooner ensconced in the Secretaryship of State than he unfolded a scheme for insuring world-wide peace. A cynical world received his proposals with a simulation of interest that only partly veiled the profundity of its boredom, and it would be more or less than human if it refrained from a quiet chuckle at the spectacle of Mr. Bryan hovering on the edge of a war with Mexico precisely at the moment when his plans for wiping armed conflicts off the face of the earth were due to appear in their perfected form. And apart from this there was a very general interest, mainly but not wholly charitable, in seeing how the United States would acquit itself in a situation where its favorite device of despatch-writing was useless, where policies had to be thought out and applied to meet specific and changing conditions, and where American diplomacy could only hope to succeed so far as it showed flexibility as well as firmness and was guided by a deeper understanding of the character and conditions of Spanish-American countries than Washington had ever, for instance, displayed in its treatment of Cuba.

But in spite of this, foreign Governments and foreign opinion generally have been fully appreciative of American

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difficulties in dealing with the Mexican situation; and their sympathy has been clearly and usefully manifested in their patience. They have given the United States an absolutely free hand and have scrupulously refrained from any criticisms or suggestions that might embarrass the authorities at Washington; and in Mexico City itself they have consistently supported all the vagaries of American diplomacy. I remember when I was in Washington some thirty months ago gathering the impression that only two things gave President Taft any sort of pleasure in the Mexican embroglio. One was to observe the smoothness, celerity, and completeness with which the concentration of the American troops had been effected. As an ex-War Secretary the President felt and acknowledged a professional pride in watching the reforms initiated by Mr. Root, carried on by himself, and capped by the admirable administrative work of General Leonard Wood, yield such excellent results. The other feature that seemed to bring him a negative sort of satisfaction was the acquiescence of foreign Governments in American policy. There had been, no doubt, inquiries and conversations, but nothing that could be called "representations" or that smacked in any way of diplomatic pressure. President Wilson, I am sure, would be the first to declare that the attitude of the various Powers whose subjects possess interests in Mexico is the same to-day as it was in 1911, and as it has been throughout the whole revolutionary period, and that no attempt has been made to interfere with his complete liberty of action. It is universally recognized that the pacification of Mexico, whether by persuasion or by force, is an American and not a European responsibility, and that the United States can neither delegate nor share it. Fifty-three years ago, when Mexico was at least as distracted as to-day, Great Britain proposed that the United States should join with her and with France in offering to mediate between the contending factions. The proposal was not accepted; and neither Great Britain nor any other Power has for one moment contemplated repeating it in the present crisis. From every standpoint of trade, finance, propinquity, political relationship, and military strategy the interest of the United States in Mexican conditions is so palpably paramount to that of all other nations that no Government has even considered the possibility of suggesting a joint intervention. At the same time the opinion has not been con-

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cealed, and in Great Britain it has found open expression, that, occupying this preferential position and being in a very real sense the guardian of all foreign interests in Mexico, the United States is under a special obligation to assist in the restoration of peace and order and not to allow its capacity for useful service to be impaired by little scruples or purely American considerations. It is felt, in other words, that in return for the freedom in the choice of ways and means which has been conceded to the United States without its being even claimed, and in recognition also of the forbearance which has attended both the American policy of doing nothing and its recent abandonment for injudicious and irrelevant interference, the authorities at Washington owe it to the world to sink narrow and merely national views and prejudices and to act with the decisiveness and the breadth of outlook that the emergency demands.

By that I do not mean that there is any desire—certainly there is none whatever in Great Britain—to see the United States intervene in Mexico by force of arms. Every friend of America abroad would deplore any such development. The criticisms that have been leveled against President Wilson's recent course of action by the British Press have their roots in the conviction that intervention has thereby been made more and not less likely. It is perfectly well realized that neither the American people nor the American Government—the Government even less than the people—desires war with Mexico, or covets a single inch of Mexican territory, or looks forward to the possibility of intervention with anything but the most profound reluctance. There are jingoes in all countries, but, so far as an outside observer can tell, there are very few of them in the United States at this moment. No doubt a war party exists in the Press and finds an occasional echo in Congress; and no doubt it is pursuing, though on a smaller scale, the same methods that worked so successfully in forcing American intervention in Cuba. But so far it would seem to have had little influence on opinion at large. The temper of the American people appears to be decidedly pacific and anti-expansionist; no issue has yet cropped up to appeal, as Cuba appealed, to their humanitarian instincts; no outrage has thus far been committed to stir them like the blowing-up of the *Maine;* and except perhaps along the Southern frontier, where race

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feeling rules, there exists no enmity among Americans generally toward either Mexico or the Mexicans. Moreover, the personal, which is nearly always at a crisis the decisive factor, is far more favorable to peace to-day than it was when Mr. McKinley allowed himself to be hurried into the war with Spain. I was very greatly struck by President Taft's handling of the Mexican difficulty and by the good sense which guided the Democratic leaders of the House of Representatives in heading off all attempts to make it a matter of Congressional debate. From the very first Mr. Taft took warning by the fate that overtook Mr. McKinley in 1898 and made up his mind to keep the control of events in his own hands to the last possible moment. He confided fully and freely in the leaders of both parties in both Houses; he preserved his freedom of action by explaining and justifying each step as it arose, alike to his friends and opponents in Congress; and I gathered from him in the early months of 1911 that in his opinion the limits of executive action would not have been reached even if it had become necessary for him to take forcible but strictly defensive measures to prevent the destruction of American lives and property in the border towns. Any time within the last two years of his administration Mr. Taft could have found, if he had chosen, excuse enough for sending an army across the Mexican border. It was commonly rumored that he was strongly pressed to do so by certain political advisers who saw in a foreign war the only chance of saving the Republican party from political disaster at home. But he very wisely and honorably declined to be influenced by any but national considerations, and his policy and bearing throughout the Mexican crisis will always mitigate the verdict of failure that history will probably pass on his administration as a whole. He succeeded in keeping the relations between the two countries on this side of a rupture, and he turned over the problem to his successor in no way complicated by anything he had said or done, and in many ways alleviated by his persuasive and pertinent management of it both as a whole and in detail.

In the course of the last six months British observers have formed a decided opinion of President Wilson as a man whom it is impossible to rush. His conduct in the White House, his dramatic but absolutely untheatrical independence, his whole method of approaching his duties, the ex-

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traordinary hold that he has secured on Congress and public opinion, his gift for being interesting without self-advertisement, the novel spirit of practicality he has introduced into the discharge of the Presidential functions, and especially into the delicate negotiations that pass between the two ends of Pennsylvania Avenue, and his power of stamping his wishes and opinions upon the course of legislation without bluster or the least suspicion of hectoring—all this has made a deep impression on the friends of America abroad. His career and personality, and the revelations of his inner mind that are to be found in his books and in his public record, seem to them an ample guarantee that he would never seek either a national or a political quarrel any more than he would shrink from it if one were forced upon him. That his policy is to circumscribe rather than enlarge the foreign liabilities of the United States, and that he is the last man to embark on schemes of adventure or to embrace entanglements that might honorably be avoided, we in Great Britain assume to be axiomatic. A strong, deft man at the head of a party that for the past twenty years has incessantly denounced every manifestation of a tendency to "Imperialism," President Wilson, I should judge, is peculiarly well placed for bridling the outbursts of belligerency to which Americans, more, perhaps, than other peoples, are liable, and for holding himself and his country fast to the common sense of whatever situation, internal or external, may develop. At any rate, nobody that I know of has ever suggested that he could be stampeded into war against his conscience and his convictions or that he would weakly renounce his control of events in favor of Congress. British onlookers, therefore, reckon President Wilson as an inestimable asset in the cause of a sane and unprovocative handling of the Mexican crisis. That is to say, the belief is pretty well universal that his instincts and temperament and his sense of responsibility and his capacity for resisting pressure are all ranged on the side of peace, and that the mistakes, if any, in his methods of ensuing peace are mistakes of judgment merely.

One factor that greatly helped President Taft in keeping the Mexican question more or less in the background—I mean the highly sensational and engrossing character of American domestic politics during the latter part of his administration—no longer assists his successor. As a topic of

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public discussion, to judge from the columns of the American Press, Mexico holds its own with the Tariff and Currency Bills, and is only eclipsed by the things that really matter—the golf championships, the opening of the football season, and so on. This is an undoubted disadvantage, because in all countries—but in the United States, I think, especially—popular interest in a given problem of foreign politics is usually the greatest obstacle to its rational settlement. There are very few questions between governments and governments that could not be satisfactorily disposed of if only the Press would cease to mention them; and I always feel a particular sympathy with any American statesman who is endeavoring to conduct delicate negotiations in a glass house with all the electric lights turned on, a reporter at each keyhole, a talking Ambassador outside, and a thousand newspapers feeding an impatient and ignorant public with tainted news, imaginary interviews, and slap-dash opinions. But while this is an influence that inevitably does nothing to clear the atmosphere and threatens, indeed, to become more disturbing as time goes on, the other reasons that told so strongly with President Taft and prevented him from pushing matters to extremes are not less potent with his successor. One of them is the obvious fact that the forty-thousand-odd American residents in Mexico, representing investments and property to the extent of well over $500,000,000, are opposed to American intervention in any form. They realize that it would operate at once as a signal for peace among the Mexican factions, and for such a movement against foreigners as would place their persons and interests in extreme jeopardy. But an American President has two greater incentives to circumspection in his dealings with the southern Republic than this. He cannot but be acutely aware that a war between Mexico and the United States would inflame all Spanish-American sentiment against the latter country and would undo whatever has been accomplished by Mr. Root and Mr. Knox and the Pan-American Union in winning the good will of the Central and South American Governments. South America in general, and the Republics that are dotted round the shores of the Caribbean in particular, perfectly well realize that they have more to fear from the United States than from any European country. They remember Panama and the American treatment of Cuba and San Do-

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mingo. They have studied the Nicaragua Treaty that Mr. Bryan sprang upon the Senate last July, and they detect in its provisions a formula for the expansion of American authority that may easily lend itself to repetition. They observe that the habit of interfering in Central American affairs for the purpose of enforcing what Mr. Roosevelt used to call a standard of " decency " is growing more and more popular at Washington, and that large numbers of Americans are becoming accustomed to regarding their country as the natural policeman and official receiver of the neighboring Republics; and they would one and all consider intervention in Mexico as a direct and definite menace to themselves.

The other and yet stronger argument in favor of a strict neutrality is that the United States is ill-prepared, politically and materially, for the alternative. To seize and hold the three or four strategic points in Mexico might be a comparatively simple matter, but to dominate the country and to wage the inevitable guerilla warfare that would ensue would require at least 250,000 men and probably three or four years of time. It would be by far the biggest and most hazardous undertaking on which the United States has embarked since the Civil War. That at least is certain, but the extent of the commitments that would be incurred after the pacification of the country had been effected is beyond computation. They might easily involve a permanent occupation of Mexican territory and full responsibility for its government. No sensible American, I take it, wishes to put his hand into a hornets' nest like that, or would regard it as anything but a national disaster if the United States were to become involved in such endless and complex liabilities. History is studded with examples of Powers that have intervened in the affairs of adjacent States simply for the purpose of restoring order and fully intending to withdraw the moment that object was achieved, and that have then found it impossible to do anything but stay on. The force of circumstances, and the moral and material obligations of the situation they have brought about, are all but invariably too strong for them; and the first American regiment that crosses the Mexican frontier will, more likely than not, be laying the foundations of an American Egypt. That is a prospect of such tremendous import and would entail, were it to be realized, so great a dissipation of the national wealth

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and energy and so far-spreading and intricate a series of political and constitutional problems that to prevent its realization at almost any cost is the first duty of American statesmanship. Nevertheless, with the best will in the world, the relations between the two countries must continue to be not merely strained, but at the mercy of a thousand and one conceivable incidents, until such time as a régime is established in Mexico City equal to the task of purchasing or compelling order. In the past three years many American citizens have been killed, the property of many more has been injured, and a dozen vexatious questions have arisen over the enforcement or non-enforcement of the American neutrality laws. President Taft met the situation—I quote his own words—by a policy of "patient non-intervention, *steadfast recognition of constituted authority in the neighboring nation,* and the exertion of every effort to care for American interests." He despatched American men-of-war to Mexican ports, and he stationed a considerable body of American troops in close proximity to the frontier, partly to check gun-running, partly to prevent "incidents" from acquiring a factitious importance by dealing with them on the spot, and partly to warn all factions in Mexico that the United States was fully awake and that a continuance of their internecine struggle might involve some unpleasant consequences. Beyond these precautionary measures he refrained from any positive action, and while his policy did not and was not framed to contribute in any very definite way toward the appeasement of the country, it had at any rate the virtue of preserving the forms and something of the spirit of friendship between the two Governments.

In President Taft's version of his policy, quoted above, I have italicized the words "steadfast recognition of constituted authority in the neighboring nation." The President, it will be seen, made it the second plank in his platform, putting it immediately after non-intervention and immediately in front of the protection of American interests. The point is of particular interest because it is precisely here that Mr. Wilson has departed from his predecessor's policy, and it is precisely because he has departed from it that the present tension exists. General Huerta stepped into the Mexican Presidency a week or so before Mr. Wilson entered the White House. There at once came up the question whether the United States should accord recognition to the

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new ruler as the "constituted authority." Had Mr. Taft remained in power the question would have been speedily settled and Mexico to-day would be well on the way to tranquillity. Both these statements, it may be said, are mere inferences or assumptions, but they are based on the inherent probabilities of the case. President Taft, at all events, would have had to reverse his former policy altogether if he had allowed six or even three months to pass by without extending to General Huerta the courtesy of a diplomatic acknowledgment. I think, therefore, it is a safe assertion that the ex-President, had he been re-elected, would have waited a reasonable time to determine whether General Huerta was in a position to maintain himself in power, and, on finding that he was, would have recognized him without further ado. He would have perceived that he was faced with an accomplished fact that it was neither his business nor within his power to challenge or reverse; and he would doubtless also have argued, as he argued in the case of President Madero, that the best chance of restoring Mexico to some semblance of order lay in strengthening the hands of the *de facto* ruler. His strong common sense would have prevented him from inquiring too closely or pedantically into the title of a President of a Spanish-American State in a time of revolution. So long as the new head of the State gave proof of resolution and capacity—and General Huerta has given proof of both qualities—Mr. Taft would have treated with him, even though he was unable to produce a certificate of his election from the receiving officer, and even though charity itself could not pretend that he was anything more than a successful military adventurer. As for my second assumption, that an early recognition of General Huerta would by now have brought Mexico within sight of peace and security, the whole course of events in the past half-year appears to justify it. As Mexico's immediate and most powerful neighbor, with a stake in the country greatly in excess of that of any other nation, America's attitude toward the Republic necessarily means more, and carries with it greater implications and significance, than the attitude of all other Governments put together. The great importance attached in Mexico City to American recognition is no greater than the circumstances warrant. It is a question of finance as well as a question of prestige. So long as the United States publicly withholds

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recognition from the occupant of the Mexican Presidency the money-markets of the world are closed to him; he ranks merely as one among a crowd of rival adventurers, and he is deprived of the power and authority that go with a full Treasury. And just as the denial of his status impedes his chances of asserting himself against his enemies and establishing his rule on a sound basis, so its acknowledgment supplies him with all the moral and material assistance that the head of one State can render the head of another in the settlement of domestic troubles. I think it, therefore, not unreasonable to assert that but for Mr. Taft's disappearance from political life General Huerta would long ago have been recognized, and that Mexico would to-day be well advanced toward a reasonable pacification.

President Wilson, however, has taken a very different view of the question. I do not know that he has anywhere summarized his objections to recognizing General Huerta, but I presume they are not unconnected with the assassination of Señor Madero and with the fact that General Huerta owes his present position, not to a popular election, but to an act of military usurpation thinly veneered by Constitutional forms. There is no doubt that he climbed to the Presidency by the conventional Spanish-American route. He deserted Madero last February and so brought about his downfall, and American opinion has fixed upon him the chief responsibility for the ex-President's murder. As to that it is enough to remark, first, that the General's complicity has been repeatedly denied and has never been established, and, secondly, that there is an end of all rational relations with Spanish-American Republics if the actions and language of their politicians are to be judged by the standards of the English-speaking peoples. Porfirio Diaz more than once fell under similar suspicion, but President Roosevelt was not thereby prevented from eulogizing him or President Taft from meeting him with all the accessories of official ceremony. Even if General Huerta's guilt had been unmistakably proved, instead of being merely surmised, a practical statesman would still have to remember the abnormal conditions that have rendered assassination a frequent and by no means an abhorrent weapon of Spanish-American politics. I do not suppose it will be claimed that Great Britain or France is less sensitive in such matters than the United States; but neither of those Powers has

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experienced any difficulties of conscience in strengthening General Huerta's hands by recognizing him as the temporary but properly constituted head of the Republic. It is, indeed, a somewhat remarkable fact that every foreign Government with interests in Mexico except the United States has already acknowledged the General's title and has done so with the cordial approval of its residents in Mexico. The day before President Wilson read his message on the Mexican situation to Congress a meeting of the British colony in Mexico City passed a resolution affirming (1) that one of the greatest impediments to the re-establishment of peace in Mexico was the lack of unanimous recognition of the Huerta régime on the part of the Powers; (2) that it complicated the Government's financial problem, rendered more difficult the suppression of lawlessness and brigandage, and prolonged the present disturbances; (3) that the French, German, Spanish, and Austro-Hungarian residents in Mexico had adopted and had given formal expression to identical resolutions; and (4) that it was hoped the British Government would use its friendly offices to press them upon any Power that still abstained from acknowledging President Huerta's status. It is impossible, I think, to dismiss this unanimous testimony from so many sources as part of the great fight between rival oil "interests" that is believed in some quarters to be the operating influence behind the whole Mexican entanglement. Moreover, it is well known that the American Ambassador in Mexico City, supported by the majority of his fellow-citizens in the country, had convinced himself that the best prospects of peace lay in the United States working with and through General Huerta, and that he repeatedly pressed this course upon his Government. Whatever the defects of the General's title to his office—I believe as a matter of fact that a court would decide it to be perfectly valid according to Mexican law—the fact remains that he has for six months defended it successfully and by methods that seem equally removed from the indecisiveness of Madero and the high-handedness of Diaz. That is a fact which, in the opinion of British onlookers, ought to count. That it has not counted with the authorities at Washington is ascribed by some observers to the influence of commercial and financial interests, and by others—and they, in my judgment, are nearer the mark—to a certain squeamishness of conscience which

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prevents the American Executive from having any direct dealings with a ruler of General Huerta's reputedly unpleasant record.

The United States, therefore, has held aloof. But it has sufficiently compromised with the necessities of the situation to extend to General Huerta a left-handed and informal recognition. At no time during the past six months have the official relations between Washington and Mexico City been at an absolute standstill. There has always been a tacit and subterranean diplomatic connection of a kind calculated to do America no harm and the Mexican President no good. Mr. Wilson did not hesitate to send Mr. Lind as his personal representative to confer with and submit proposals to the abhorred usurper. But the simple and sufficient expedient of doing what every other Power has done and recognizing him frankly for what he is, the President in possession, the United States has refused to adopt. For the sake of a scruple it has thrown away the best and easiest chance of lending a helping hand to Mexico. It appears to have sworn a sort of vendetta against General Huerta. Not only will it not admit him to the sacred diplomatic circle, but it demands from him a pledge that he shall not put himself forward as a Presidential candidate if and when the promised elections are held. All the Englishmen who know Mexico I find in a state of exasperated merriment over American insistence on an election as the means of regularizing the status of whatever ruler is evolved from it. As though, they say, there had ever been a genuine election in Mexico; as though the people had any conception of popular government; as though every "appeal to the country" were not "made" by the ruler of the moment, with the police doing most of the voting and the average man shrewdly absenting himself from the polling-booths. American diplomacy, in short, appears in British eyes to have landed itself in a mesh of rather puerile inconsistencies. It will not itself intervene nor allow any other Power to do so; it will not recognize General Huerta; it disputes alike his authority and his power to restore order; at the same time it announces its intention of holding him severely to account in the event of injury to American lives or property; it draws a picture of a country unable to fulfil its international obligations and plunging deeper and deeper into the morass of civil war, and proposes a general election as a suitable remedy; it fixes on

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the one man who has shown himself competent to cope with local conditions and insists that he must retire from the forthcoming contest; it demands the immediate cessation of hostilities, but offers no inducement, financial or political, by way of loan or of diplomatic support, to this desirable end, and apparently expects all the bands of brigands in Mexico to compose their differences and abandon their agreeably exciting mode of life at the mere request of the United States; and finally it winds up by warning all Americans in Mexico, who have lived through three years of revolution and ought by this time to be pretty good judges of the local situation, to leave the country as speedily as may be, promising them the assistance of the American Government in their flight. The net result of this extraordinary array of recommendations has been to inflame Mexican resentment to a pitch that makes the possibilities of intervention no longer remote. In his message to Congress President Wilson stated that "if Mexico can suggest any better way in which the United States can show its friendship we are more than willing to consider the suggestion." In the opinion of the outside world "the better way" has long ago been indicated. It consists in recognizing General Huerta without any further reservations, in assisting him financially to assert his authority, and in refraining from making demands that are not intended to be enforced, and that can only be considered as humiliating when addressed by one independent State to another.

SYDNEY BROOKS.

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THE WEST VIRGINIA COAL INSURRECTION

BY CHARLES FREDERICK CARTER

HAS a State the right to develop its natural resources?

Has an employer the right to select his own employees?

West Virginia having recently been obliged to put down, at a cost to the taxpayers of more than five hundred thousand dollars, an armed insurrection, organized and maintained to oppose the exercise of these rights, it would seem that, in some quarters at least, these questions are regarded as debatable.

Because the issues involved have been so befogged by malevolent mendacity that the general public cannot be expected to understand them, it may be worth while to review the facts regarding the West Virginia coal insurrection, and, more especially, its underlying causes.

While rich in other natural resources, West Virginia is pre-eminently a coal-mining State. Of the fifty-five counties thirty-nine have coal areas aggregating 9,500 square miles, or 6,080,000 acres. If the good coal in this area that can be recovered under commercial conditions be estimated at 10,000 tons to the acre, an estimate which is accepted by mining engineers as conservative, the total amounts to 60,800,000,000 tons, worth on board car at the mine at current prices, about $60,000,000,000. At the present rate of production this almost incomprehensible sum would afford the people of West Virginia an annual income of $60,000,000 for a thousand years. The greater part of the price received for coal at the mine is paid out in wages, which are spent in the State.

All the coal is of superior quality, while the famous smokeless coal supplied to the United States Navy is the best steam coal in the world. Many of the veins are unusually

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thick, those worked ranging from four to eleven feet. Most of the existing mines being above water level, have been developed by drifts, the coal being delivered by gravity to the tipple beside the railroad track. Under these favorable conditions, the mining industry has developed rapidly, the production increasing from 18,886,911 tons in 1900 to 52,923,708 tons in 1910. While the population of the State increased from 958,800 to 1,221,119, or twenty-seven per cent. in the same period, the number of mine employees increased from 28,017 to 68,135, or one hundred and forty-three per cent.

Being a mountainous State, sparsely populated, with comparatively few manufacturing industries, most of which use natural gas for fuel, less than ten per cent. of the coal mined, including that used by the railroads, is consumed within the State. The rest must be sent through competitive coal-fields to distant markets.

The most important fuel market on the continent is the Middle West, including that part of the United States and Canada served by the Great Lakes, commonly known as the "Lake Trade." The great bulk of West Virginia coal has always been marketed in the Middle West, but prior to 1897–8 the coal operators of Illinois, Indiana, Ohio and Western Pennsylvania enjoyed a monopoly of the lake trade, being able to adjust prices to suit themselves. In the 'nineties West Virginia operators began shipping into that market in a small way, selling their product at a narrow margin. Their coal being of superior quality, received the preference, other things being equal, so that about 1898 the competition of West Virginia began to be felt. It may not be out of place to say that, thanks to West Virginia, the consumers in this great territory are buying their fuel to-day at substantially the same price they paid in 1898.

The coals of Illinois, Indiana, Ohio, and Western Pennsylvania are not equal to the West Virginia product in quality, while, with some exceptions, the cost of production is somewhat higher. These factors tend to neutralize the advantage of being nearer to the market. But a more sinister factor remains to be reckoned with.

The coal-mines of Illinois, Indiana, Ohio, and Western Pennsylvania are virtually in control of the United Mine Workers of America, an oath-bound organization with headquarters in Indianapolis.

It is well known that the policy of labor-unions is to re-

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strict production. While the average annual output per employee in West Virginia's non-union coal-mines has increased from 674.4 tons in 1900 to 855.9 tons in 1912, the average annual output per employee in the unionized mines of Illinois is 724.2 tons, and in Ohio 705 tons, notwithstanding the fact that in union Ohio eighty-five per cent. of the coal is produced by machine mining, while in non-union West Virginia only fifty-one per cent. of the output is machine mined.

Considering all these handicaps, the operators in the States under union domination would have been more than human if they had not viewed with increasing resentment the competition of West Virginia. The point of view of the union operators was best summed up by a high official of the largest coal company in the Pittsburg district, who characterized the development of West Virginia's coal-mines as "an economic blunder." That is, in his opinion, the people of West Virginia had no right to develop the natural resources of their own State.

To counteract the results of this "economic blunder" two weapons were available; the discriminative freight rate and the union agitator. Both weapons have been used. While all of West Virginia suffers from discriminative freight rates, the section chiefly affected is all that part of the State south of the Baltimore and Ohio Railroad, including what is known as the Kanawha field, along the Kanawha River, the main line of the Chesapeake and Ohio and the Kanawha and Michigan railroads. It includes Cabin Creek and Paint Creek, entering the Kanawha River from the south, separated by a single mountain ridge, the scene of the recent insurrection. Summer business for the Kanawha mines consisted largely of shipments to Lake ports.

Early in 1909 Pittsburg shippers backed by the northern railroads proposed an increase in rates on West Virginia coal. This proposed increase was successfully resisted in the courts and before the Interstate Commerce Commission. Then the Pittsburg operators instituted new proceedings before the Interstate Commerce Commission which resulted in a decision in March, 1912, lowering the rate from Pittsburg to the Lakes from eighty-eight cents to seventy-eight cents, while the rate from the Kanawha field remained at ninety-seven cents, giving Pittsburg an advantage of nineteen cents a ton, or almost twenty-five per cent. On the ship-

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ments from the Kanawha district in the summer of 1911, this differential would amount to $570,000. That there may be no doubt about the object sought, two questions and their answers in these proceedings are quoted. They were addressed on November 24, 1911, to the chairman of the Board of Directors of the Pittsburg Coal Company, a corporation capitalized at $80,000,000, as follows:

"If any change is made in the freight rate which will result in increasing your output that must necessarily result in a corresponding reduction of the output in the competitor's (the West Virginia) field?"

"That is correct."

"And that is what you desire to accomplish?"

"That is exactly what we desire to accomplish."

As freight rates now stand Kanawha coal is shut out of the markets of the Atlantic seaboard, Canada east of Detroit, Memphis, Louisville, St. Louis, Mobile, and New Orleans.

The Kanawha field has no market distinctly its own. It meets strong competition at every point, and has only been able to maintain its position by the exercise of skill in mining and by activity in soliciting business. The margin between the cost of production and the selling price is small when everything is running smoothly, and it is wiped out entirely whenever there is a shortage of cars or orders or other disturbing element.

In 1911 there were one hundred and twenty-five mines in the Kanawha field producing an average of 45,480 tons annually, with an aggregate output of 5,665,087 tons, and twenty-four producing an average of 162,877 tons, with a total production of 3,909,044 tons. In other words, almost sixty per cent. of the coal produced in this field is loaded by small mines which would be forced to close down by a very slight increase in operating costs or exactions. It was this coal-field, the operators in which were already driven to the wall and hence might be expected to succumb if any further pressure was applied, which was chosen as the battle-ground upon which was to be fought the contest that was to determine whether or not a State has the right to develop its natural resources, and whether or not an employer has the right to choose his own employees.

One of the inducements held out to the operators of Ohio, Indiana, Illinois, and Western Pennsylvania to enter into an agreement giving the United Mine Workers a monopoly

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of labor was contained in Clause Eight of the contract signed at Chicago, January 28, 1898, by the operators of the central competitive coal-field and the United Mine Workers, which reads as follows:

"That the United Mine Workers' organization, a party to this contract, do hereby further agree to afford all possible protection to the trade, and to the other parties hereto against any unfair competition resulting from a failure to maintain scale rates."

In union parlance "unfair" means "non-union." The only non-union coal-field competing with the four States mentioned is West Virginia. Therefore Clause Eight meant that in exchange for the increased wages and other concessions elsewhere provided for the union undertook to prevent West Virginia from becoming an effective competitor of the four States.

The proceedings of the joint conferences of operators and miners as reported by the official stenographer and published by authority of the conference show that at every session since 1898 the operators have been urging the United Mine Workers to fulfil their agreement by organizing West Virginia. A few excerpts from the official reports will prove this.

On page 17 of the official report of the conference of 1910 will be found the following remarks by C. E. Maurer, an Ohio operator:

"The granting of the eight-hour day by the operators, after making these numerous other important concessions, was with the distinct understanding and explicit promise of the miners to give to the operators of the four contracting States adequate protection against the competition of the unorganized fields. From year to year they have been called upon to fulfil their promise. The operators, parties to that agreement, at the time of its execution, felt that it was absolutely necessary to the safety of their investments that they be protected from the encroachments upon them by their competitors of the unorganized field. . . . We ask for the fulfilment of the pledge of 1898."

At the same conference John Green, representing the United Mine Workers (page 29), said:

"The United Mine Workers of America have diligently and aggressively attempted to carry out the promise made in Chicago in 1898. They have done everything in their power to redeem any promise they may have made to organize West Virginia. Since 1898 our organization has at various times spent hundreds of thousands of dollars trying to

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unionize West Virginia. We have also sacrificed human life in the attempt to redeem that promise."

In corroboration of Mr. Green's statement it may be said here that according to a statement published in the *United Mine Workers' Journal,* the official organ of the union, the organization spent $669,938 in financing disturbances in West Virginia from 1900 to 1910. Information from unofficial but authoritative sources places the cost to the union of the insurrection of 1912–13 at $602,000.

At the 1912 conference (page 274) H. L. Chapman, a mine operator from Ohio, said:

"When we met in Chicago in 1898 and re-established the interstate movement the competition from the non-union fields was the element that entered into negotiations in the adoption of the scale that was made there. . . . It was understood in that convention, although it was not mentioned in the agreement, that the miners of the competitive fields of the four States were to bring the non-union field up to the price paid for mining in those States, and unless they secured the adoption of an eight-hour day at the next convention the competitive field was to be relieved of these burdens."

At the same meeting (page 245) John P. White, President of the United Mine Workers, said:

"We are as anxious to establish the organization in the West Virginia fields and the other non-union fields as the gentlemen on the other side of the house are to have us do so. But the operators there have been successful in defeating the aims and purposes of the United Mine Workers to a large extent, although no one can deny that under the various administrations of the organization every effort has been put forth to try to break down the conditions that are complained of here on the other side."

On page 217 of the official report of the 1912 conference may be found the following remarks by Duncan McDonald, Secretary-Treasurer of the United Mine Workers of Illinois:

"We have had thousands of men go to the penitentiary for trying to establish our organization in West Virginia, and other non-union fields. . . . We expect that more of us will go to jail. The penitentiary doors have no terrors for us, as far as that is concerned. And if putting two or three hundred of our men in jail will organize West Virginia we will send two or three hundred down. The chances are we will have to get busy with that situation shortly."

Men are not often sent to the penitentiary until after they have been convicted of felonies. According to Mr. McDonald's admission, therefore, the United Mine Workers in their organized capacity had been guilty of a great many

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crimes in West Virginia and contemplated the commission of many more. Before taking up what followed Mr. McDonald's threat to commit acts expected to land two or three hundred of his followers in the penitentiary it may be well to review briefly the reasons why the operators of West Virginia were not disposed to look with favor upon an alliance with the union.

In 1902 the United Mine Workers had a considerable foothold in West Virginia, although the organization was not " recognized "; that is, the operators did not deal with the organization in fixing wages and other conditions regulating employment. When the great anthracite strike came on in 1902, the miners of West Virginia were busy, peaceful, and contented. Nevertheless, they were called out, ostensibly, in aid of the anthracite strikers. But it is to be noted that other non-union districts in Pennsylvania, where the organization had the same sort of a foothold that it had in West Virginia, which shipped coal to the East in competition with anthracite, but did not ship to the West in competition with the organized field, were suffered to run without interference. Thus it is a fair, if not an unavoidable, inference that the strike in West Virginia was not a sympathetic one, but was in reality declared to protect the " organized " field of Illinois, Indiana, Ohio, and Western Pennsylvania against West Virginia competition in that period of top prices for coal. The result was more than half a year of turmoil and disorder in the course of which many acts of violence were committed by the strikers, and there was considerable destruction of property. While the United Mine Workers succeeded in unionizing the Kanawha District, they lost every vestige of organization in the rest of the State, except perhaps in a few mines near Wheeling.

Two years later, in 1904, a dispute arose between the operators on Cabin Creek and the organization concerning the employment of non-union men. A strike was threatened, and arbitration of the construction of the agreement was demanded by the operators, but was refused by the local and national officials of the organization. Whereupon the Cabin Creek operators declined to have any further dealings with the United Mine Workers of America and a strike resulted. The mines were idle about ten days or two weeks, at the end of which time they started up as non-union mines and have been running as such ever since.

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The rest of the Kanawha district with the exception of Cabin Creek continued to be union. Paint Creek was included in the unionized district. According to the union's own statement it had on January 1, 1912, only 1,136 members in a total of 69,611 miners in the State.

Less than a week after Secretary-Treasurer McDonald had announced the union's intention to " get busy " on a programme that was expected to land two or three hundred of its zealous members in jail, the union miners on the north side of the Kanawha River began buying modern, high-power rifles at a certain store in Charleston, which by a curious coincidence received a very large shipment of these guns just at that time, although there was no disagreement with union operators, nor any trouble of any kind. In a short time these union men, then professing peace with their employers, and all the rest of the world, had accumulated more than a thousand rifles and a large stock of ammunition.

The next step on the part of the union was to demand the same increase in wages that had been granted to the miners in the four competitive States after their officers had given satisfactory assurances that they would " get busy." The demand was refused, whereupon the union ordered a strike. Then the union offered to trade the increase demanded for the " check-off."

To understand the significance of the " check-off," which was what the union officials were really manœuvering to gain, and not an increase in wages for their adherents, it should be explained that in union territory every man working in a mine is compelled to belong to the union and take the union oath, or at least he must pay dues just as if he were a member. To make sure that he does pay, the " check-off " has been devised. This scheme is worked in various ways, but most frequently by means of the " check-weighman," who collects the dues directly, being given a number the same as the miners, and taking in rotation from each miner a car of coal or a certain weight of coal, which is credited on the books of the company to the " check-weighman." The " check-weighman " deducts his own compensation from the sums he collects and turns the balance over to the treasurer of the organization in satisfaction of the dues or assessments of the men from whom the sums have been " checked off." This system avoids the possibility of neglecting to pay dues and assessments. This explains why the " check-weighman " is

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so strongly desired by the organization everywhere. The assertion that the " check-weighman " is needed to protect the poor miner from his dishonest employer is merely a specious pretext to deceive the credulous public.

At the 1912 conference the union demanded that no limit should be placed upon this forced levy, which the operators were required to make on the wages of their employees for the benefit of the organization. The conference limited the amount that might be " checked off " to five dollars at each semi-monthly pay, but provided that more might be checked off by " special agreement " with the operators. This " check-off," under the agreement, takes precedence of the grocery bill for the miner's family and everything else, except pay for powder and tools. At the present time the " check-off " is twenty-five cents regular dues each semi-monthly pay-day, plus fifty cents special assessment for strike purposes each semi-monthly pay-day. As the union now has 400,000 members this forcible levy on the miners' wages yields the neat sum of $300,000 every half month, or $7,200,000 a year, to be used by union officials as they see fit.

The relative importance of the " check-off " and the welfare of the working miner as viewed by union officials was shown in the so-called " Paint Creek Settlement," made by two operators on Paint Creek, employing fewer than a thousand men, with the United Mine Workers at Charleston, July 15, 1913. By the terms of this agreement the union actually bound its members to return to work, after a strike lasting sixteen months, at lower rates than the two companies had offered to pay before the strike was called. This reduction in prices amounts to a loss in wages of sixty dollars to one hundred and twenty dollars a year for each miner. The reduction in wages was granted by the union in return for the concession of the " check-off." That is, the operators undertook to take out of the wages of each miner twenty-four dollars a year to be turned over to the union as payment for the privilege of operating their mines.

The few union operators in West Virginia refused to become collectors of a fund to be used for the undoing of themselves and their non-union neighbors, but they did finally agree, with the exception of three companies on Paint Creek operating some sixteen mines, employing in the aggregate about a thousand men, to purchase peace by paying half the

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increase demanded. These Paint Creek mines were operating on so slender a margin that any increase whatever in expenses was out of the question. Indeed, the president of one of the Paint Creek collieries companies has testified under oath that his company was then, and still is, insolvent. The majority of the men working at these mines were not members of the union. Both they and a majority of the union men desired to continue at work at existing wages under existing conditions.

Notwithstanding all this, the union ordered a strike at these Paint Creek mines. A small minority obeyed the order willingly, others quit through fear of violence. Many of the better class of workmen quietly left the country.

The miners occupying company houses who refused to work, were, after some weeks, required to vacate the houses and leave the company's property. In each case work was offered them at union mines with union wages and conditions, and the company offered to bear the expense of loading their household goods in cars for transportation to another place to work. Some accepted these offers, but many refused. The organization established camps at Holly Grove, near the mouth of Paint Creek, and later at other points, where were gathered in tents not only the striking miners, but men who had not been at work in the disturbed districts, and who came to the camps to participate in the lawlessness which speedily followed, of which the Holly Grove camp and others established later were, as they were intended to be, the nuclei. The union provided the tents and fed the occupants, while union officials directed their activities.

Almost as soon as the Paint Creek strike began a large body of "organizers" of the United Mine Workers and other agitators were brought into the district. These persons made the most incendiary speeches, openly counseling or approving assault and murder, and an armed insurrection was soon in full swing. By July 1st, not fewer than five thousand rifles, including Mausers and other foreign makes, were in the hands of the union's forces, the bulk of them being in the hands of men working at mines in parts of the field other than Cabin and Paint Creeks, but who made frequent incursions with them into the disturbed territory, having at some mines, at least, a regular system for detailing squads to garrison the camps or participate in the numerous

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attacks which were made upon the mining towns, trains, and working miners.

From May, 1912, until the end of July, 1913, a reign of terror existed upon Paint Creek and Cabin Creek. Men, women, and children in various coal towns were fired upon from ambush by union forces, in some instances several hundred shots being fired. Trains were also fired upon, passengers were interfered with and assaulted and train crews intimidated. Non-union men, or those suspected of being such, were beaten, and several murders were committed. The killing of a watchman was marked by a savagery not surpassed in Indian warfare. A deputy sheriff was killed in a union attack on the town of Ronda. When his widow and children were about to board a train to leave the place they were fired upon from ambush. So intolerable did the situation become that Governor Glasscock was compelled to declare martial law three times in nine months, for every attempt to withdraw troops was marked by a renewal of violence.

Early in February, 1913, after martial law had been declared off for the second time, the town of Mucklow was attacked by union forces. In response to telephone messages the Sheriff of Kanawha County started at night to the relief of Mucklow on a special train which included an armored car mounting two machine-guns that the Chesapeake and Ohio Railway had been obliged to equip and man to protect its property. The Sheriff was warned that the train was to be attacked at Holly Grove. Just below this point those on the train saw a considerable number of women and children gathered before a lighted cabin, and rightly concluded that the union warriors had sent their women and children out of danger. In another moment the train was fired upon. Every window in the train was shattered, but no one on board was wounded.

Three days later Mucklow and Standard on Paint Creek were again attacked; and two men were killed in an attack at Ronda on Cabin Creek. Martial law was proclaimed for the third time by Governor Glasscock, and the troops were again ordered into the field. A plot to dynamite one of the troop trains near the town of Hansford was discovered and foiled.

An organization capable of planning and executing such a long-sustained series of crimes could hardly be expected to be finicky about resorting to falsehood to palliate its conduct

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or to gain the sympathetic support of a hyper-hysterical public opinion. As a matter of fact officials and press agents of the United Mine Workers, ably assisted by the Jacobin press, have directed against the State of West Virginia a campaign of calumny without a parallel.

Overwhelming testimony produced before the Commission appointed by Governor Glasscock to investigate the coal insurrection and before the Senate Sub-committee investigating the same subject, corroborated what was already well known to all who are familiar with labor statistics; namely, that the coal-miners of West Virginia have higher annual earnings than the soft-coal miners in any other State, and that the Cabin Creek and Paint Creek miners were the best paid in the State. A negro miner who testified before the Senate committee that he earned from a hundred dollars to a hundred and fifty dollars a month and that thrice he had earned a hundred and ninety dollars in a month by his unaided efforts, shed a great light on the subject when he added:

"Anybody that wants to work kin earn good wages; but most people won't work."

Other miners testifying under oath corroborated this. No less conclusive evidence established the further facts that the mines are comparatively new, equipped and conducted according to the most approved practice; that the houses are good, the rents reasonable, the sanitation excellent, and other conditions at least as good as the average.

Complaints about the mine guards and alleged outrages committed by them were a mere pretext, an afterthought on the part of the union agitators. As a matter of fact there were no guards whatever on Paint Creek until some time after the outrages began, when they were brought in to protect life and property. There were only four guards on Cabin Creek, men who had lived there for years on as friendly terms with the miners as any New York policeman maintains with his neighbors. These four guards were the only peace officers in a population of several thousand persons. When the disorders were at their height the number of guards did not exceed a hundred and ten, to protect a total area of a hundred and seventy-five square miles, containing a population of nearly thirty thousand. This handful of picked men successfully withstood a lawless force of four or five thousand men armed with modern rifles. The guards never made an attack, but always fought on the defensive.

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The true reason for the frenzied hatred manifested by the union toward the guards was that the same agency which supplied the guards also furnished a highly efficient secret service which kept the guards informed of the outrages planned by the union. Many a desperate plot was frustrated by the co-operation of the secret service and the guards. This explains why the first declaration of martial law was made by an over-credulous Governor at the behest of the union, why the operators opposed martial law, and why the first act of the militia, acting under the orders of the credulous Governor, was to disarm the guards and send them away.

While a trifling wage dispute was nominally at the bottom of the Paint Creek strike, the great majority of the employees of the mines there were satisfied and desirous of continuing at work. Only force and lawlessness introduced from the outside brought trouble at these mines. On Cabin Creek there was no dissatisfaction, no complaint, no demand for higher wages or any other changes in conditions. These peaceful, prosperous, and contented miners were terrorized into leaving their work solely because the United Mine Workers wanted to "organize" them and to force their employers to "recognize" the organization in fulfilment of a contract to impose upon employers and employees burdens that would prevent both from making more money than their competitors in other States saw fit to allow them to make.

The violence and shootings were continued even after the sessions of the Senate Sub-committee began. Thirteen lives were lost in the insurrection. The cost in money was as follows: operators' loss in business, $2,000,000; loss to the miners in wages, $1,500,000; cost to the taxpayers of the State, $400,000; additional cost to the taxpayers of Kanawha County, $100,000; cost to the United Mine Workers, collected by the "check-off," $602,000; property destroyed, $10,000; total $4,612,000. According to the latest available statement in the *United Mine Workers' Journal,* the official organ, the union's total membership in the State was increased by this insurrection from 1,136, or about one and a half per cent. of the 69,611 mine-workers in the State, to 3,074. Thus it seems that the cost of union proselytes in West Virginia figures out at $2,379 a head.

CHARLES FREDERICK CARTER.

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HIGH PRICES AND THE THEORISTS

BY FABIAN FRANKLIN

In his article on "Gold and Prices" in the July number of this Review, Mr. Albert S. Bolles sets out with a plea for a more thorough inquiry into the causes of the prevailing high prices than has yet been made. The desire for such an inquiry is felt by none more keenly than by the leading theoretical economists of the world; they are fully aware that in addition to that agency which they recognize as most fundamental, the vast increase in the supply of gold, other causes of great importance and varied character are at work, whose nature and magnitude can be determined only by extensive and accurate research. But after its opening sentences Mr. Bolles's article is devoted to an endeavor to show that in regard to the one large cause, concerning whose operation competent economists are in substantially unanimous agreement, they are laboring under a delusion. If this were so, the outlook for any satisfactory outcome of a comprehensive inquiry into the whole complex problem would be dark indeed. "Patient inquiry" is, surely, desirable and necessary; but no amount of patience can serve as a substitute for straight thinking on the fundamental elements of a problem. That it is not the standard economists, however, but Mr. Bolles himself who has offended against the requirements of straight thinking, it is the purpose of this paper to show.

To this end it is desirable to take up first a few instances of downright and glaring fallacy; and these not incidental, but put forward with the utmost emphasis, and as conclusive proof of the wrong-headedness of the theorists. Toward the end of his article Mr. Bolles says:

> "If there be any truth in the contention that the increase of gold supply has been a potent cause in moving prices upward, why has not the interest rate on gold declined? This should be the logical and natural

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consequence unless some other causes have supervened. That the interest rate has advanced during recent years no one will dispute. The English and Continental financial publications especially are constantly discussing the problem. If there is any truth in the gold theorist's position, the borrower of gold or capital should say to the lender: 'Your gold that you now offer to me has diminished in value, I cannot buy as many goods with it as I could with gold formerly, so you ought to lend it at a lower rate.'"

Here Mr. Bolles makes the amazing blunder of forgetting that the interest rate is a *ratio;* that six per cent. means six dollars for the use of one hundred dollars, six cheap dollars for one hundred cheap dollars, six dear dollars for one hundred dear dollars. There is not the slightest trace of reason for either a high rate of interest or a low rate of interest going with a high *level* of prices; diminished purchasing power of the principal is precisely compensated by diminished purchasing power of the interest. That the process of *change* from high purchasing power to low purchasing power may have an effect on the rate of interest; that in a time of constantly rising prices it may be worth while for the borrower to give, and it may be possible for the lender effectively to demand, compensation for the prospective depreciation of the principal in the shape of a higher rate of interest, is perfectly possible—nay, it may be set down as certain that this has in fact taken place on a great scale. Not only, however, has Mr. Bolles no conception of all this, but he actually insists at great length on the ludicrous notion that the diminution in the value of gold should logically be accompanied by a diminution in the *percentage* of that same gold which should be paid for its use for a given time.

I have made this quotation first because the error is so palpable; it is not, however, in the main track of Mr. Bolles's argument, but seems rather added at the end by way of good measure. Near the beginning of the article the following passage occurs:

"Is not the following observation of an eminent French economist, Neymarck, unanswerable? 'There is no denying the increase in the production of gold; it has kept up for a hundred, for fifty, for twenty, for ten years, always progressing. And yet, during the interval, in France and abroad, there have been crises caused by the going down of prices—a fall in food products, in the price of land, in mineral products, coal, iron, etc. How did it happen that the gold production, which, they say, is the cause of the rise in prices nowadays, could not stop the fall in prices then?'"

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So far from this being unanswerable, the answer to it ought to be obvious to every one who has given any thought to the subject; but to those who have not, the answer may be instructive, for it involves in outline the essentials of the theory of money. The level of prices depends on the one hand on the quantity of all forms of money—metallic money, paper money, substitutes for money supplied by the banking and credit system — and the effectiveness or rapidity of its circulation; and on the other hand on the volume of business transactions for the effecting of which it is used. In a given state of the mechanism of banking and credit, an increase in the volume of business, with the level of prices unchanged, requires an increased volume of money. And if the actual increase in the money supply is less than would thus be required, the level of prices tends to fall, while if the increase in the money supply is greater than would thus be required, the level of prices tends to rise. This, roughly speaking, is the quantity theory of money. No economist is so silly as to say that *any* increase in the gold supply, however trifling, is bound to be accompanied by a rise of prices, however great might at the same time have been the increase in the volume of production and trade. And yet as a refutation of the view that the enormous gold production of the last fifteen or twenty years has caused a great advance of prices, we are gravely told that there have been times when gold production increased and prices fell or failed to rise. This is as though one were to say that a torrential rain could not possibly have caused a river flood, because there are often heavy rains which cause no floods and even leave the water below its normal level. It ought to be possible for any one of adult mind to grasp the idea that the production of gold, though considerable, may for many years have been not more than sufficient to counterbalance the growing needs of business, but that when the annual addition to the world's stock of gold came to be vastly beyond all precedent, it was also beyond the amount needed for maintaining the level of prices. When it is stated that the world's gold production during the past twenty years—in round numbers seven billion dollars—was about equal to the estimated total of the world's gold production from the discovery of America to the year 1893, some idea may be gained of the folly of disposing of the quantity theory of money by an " observa-

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tion" which wholly ignores all consideration of quantity; and when it is added that in the twenty years preceding 1893 not only was the production of gold barely one-third of that in the last twenty, but at the same time the stock of basic money suffered an enormous diminution through the demonetization of silver, surely every one must see that nothing is left of M. Newmarck's "unanswerable" observation.

Finally, let us take the statement which Mr. Bolles puts at the forefront of his argument:

> The gold theorist usually starts with a wrong premise. He asserts that if a bushel of wheat sells for a dollar to-day, and fifteen years ago it sold for only eighty cents, gold has lost one-fifth of its purchasing power. But if some other commodity sells for eighty cents to-day which fifteen years ago sold for a dollar, has the purchasing power of gold increased? Can gold affect the prices of two marketable commodities differently at the same time, raising the price of one and lowering the price of the other? . . . If gold alone or gold and credit combined were the chief cause of the advance in prices, *it would affect everything bought and sold in the same manner.* Consider the prices of grain, for example. The advances, instead of showing equality, show great inequality. And when we pass from one group of commodities to an entirely different group, the advances are still more unequal; in some of them there have been no advances at all."

Of course the economist does not assert that "if a bushel of wheat sells for a dollar to-day, and fifteen years ago it sold for only eighty cents, gold has lost one-fifth of its purchasing power"; Mr. Bolles himself elsewhere seems to realize, what everybody knows, that it is the rise of the general average of prices to which the economist points as resulting from an increased supply of gold. But let us pass that point over, and examine Mr. Bolles's objection for what it is worth. There is no difficulty in exposing its fallacy. The fact that some prices go up and some down does not in the least militate against the doctrine that the increase in the stock of gold operates toward the raising of all prices. When the average level of prices is stationary, some prices go up and some down; when the average is falling, some go up and some down, and when the average is rising, some go up and some down. If there is a rapid increase in the world's demand for copper without corresponding enlargement of the sources of supply or cheapening of the process of production, the price of copper will rise relatively to other things; if on the other hand scientific research should

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discover a very cheap process for making aluminum out of clay, the price of aluminum would fall relatively to other things. Along with these developments bearing upon the demand and supply for copper and for aluminum, there might or might not be important changes affecting the value of gold; and if there were, it would certainly be in no way surprising if the fall in the value of gold were such as to accentuate the rise in the price of copper, and yet not enough to completely wipe out the fall in the price of aluminum. Nobody will deny that the increase of the population of New York is a "potent cause" of the rise in the value of land in that city; but there are a thousand special causes which result in some New York lots being multiplied tenfold in value during the same time in which others experience little or no advance, and still others actually fall in value. What economists say is that the increased supply of gold is a force operating toward the rise of all prices; they do not say that it has the magic quality of suppressing all the other forces which, affecting this commodity or that, tend to raise the price of one and depress the price of the other.

With these fundamental and elementary errors exposed, it would be superfluous to give any further attention to Mr. Bolles's criticism of the views of the theorists. But a few remarks as to the views which he puts forward in place of them may be worth while. That in many instances prices have been advanced through the possession of monopolistic advantages, or of the strength that comes from combination, is undeniably true; and it would be one of the great objects of that systematic inquiry which ought to be made into the whole question, to determine the extent and importance of this factor in the case. But Mr. Bolles's notion of the matter, and indeed of the whole question of how prices are made, has a naïveté which is as remarkable as is the ease with which he dismisses the theories of the economists. What they delve down into the depths of the gold mines to discover, he finds on the very surface of things:

> "The managers of the trust fixed those prices and when they did so were not influenced by the increased gold supply. All the trust had to do was to demand higher prices, and it obtained them: it made the products; consumers could not get them elsewhere, and must have them, that is the whole story."

Again:

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"The heavy advance from ten cents a gallon to seventeen per gallon is not founded on gold or credit or any other material cause, but solely on the desire of the producers to enhance their gains."

Speaking of the higher wages obtained in response to the demands of labor organizations, Mr. Bolles says:

"What has the increased gold supply had to do with these advances? Probably the labor leaders know and care as little about it as the Icelanders; they surely have never used it as an argument in support of their demands. . . . They are ever busy formulating new demands, and frankly say that this is the object of their organizations, and are as little affected by gold production while exploiting their respective fields of controversy as the farthest star."

It appears, accordingly, that in Mr. Bolles's opinion a rise in the price that a man gets for the commodity in which he deals or the service which he furnishes is sufficiently accounted for by an analysis of the state of that man's mind or of the means which he adopts for the obtaining of his desires. The question of the wherewithal at the disposal of the other party for compliance with those desires has apparently nothing to do with the case. Of course if that were so, the theorists would have to throw up the sponge: if everything turned on the state of mind of the seller, and nothing on the resources at the command of the buyer, there would be an end of the quantity theory of money. But were it not down in black and white, it would seem incredible that the fact that the labor leaders know and care nothing about increased gold supply could be regarded by anybody as proving that the existence of that supply has nothing to do with the granting of their demands. The desire for higher wages we have always with us; but whether that desire can be fulfilled or not turns on myriad factors which mold the economic situation, and among these the level of general prices is surely one of the most potent. To say that it does not operate, simply because the labor leader acts upon his feelings of the situation without any knowledge of it, is about as sensible as to say that he is not subject to the force of gravitation because he constantly maintains his equilibrium without ever having so much as heard of Sir Isaac Newton.

In tilting at the theoretical economist, there is one kind of error to which, perhaps more than to any other, the "practical man" is addicted. He is continually imagining that the economist overlooks every-day phenomena which nobody

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but an idiot could actually overlook; the fact being not that the economist overlooks them, but that he looks beyond them. Everybody knows, and the economist knows as well as everybody, that to get higher prices or higher wages you have to ask for them; what the economist is concerned with is the explanation of your being able—or unable, as the case may be—to get them when you ask for them. It is true enough, as Mr. Bolles says, that the grocer " never tells you " that he raises the prices " because there is more gold around "; but this fact is not news to the theorists any more than it is to him. Unquestionably the immediate condition precedent to a rise of price is that the seller shall ask more; but economists are not to be supposed ignorant of this because they say little or nothing about it. The difference between them and him is simply that they do not regard this obvious fact as an exhaustive explanation of what happens. He offers it as proof that the economists do not know what they are talking about; which is very much as though a physicist who was explaining the action of light in the process of photography were to be silenced by pointing out to him that the thing that really happened was none of this remote business—all that you had to do to get the photograph was to press the kodak button.

There are many aspects of the phenomena of the high prices of this time which require, and would reward, patient and competent study. Economists are fully impressed with the irregularities of the rise, and the desirability of an inquiry into the causes of the most important of them. So far as regards one highly important instance, however, what has happened is only what economists have always pointed out must in the nature of the case happen, as indeed is evident enough to common sense. Nothing has been more of a commonplace in economic teaching than that a rise of prices caused by a lowering of the value of the monetary unit becomes effective much more rapidly, generally speaking, in regard to commodities than in regard to wages, and is slowest of all to affect salaries. Mr. Bolles is quite right in saying that " had there been a uniform advance," affecting salaries and wages as rapidly as other things, " the voice of discontent would never have become so loud and general "; but that this non-uniformity would exist, and that the required adjustment would be slow and painful, so far from being in contradiction to theory, is among the most familiar of the teachings of economists.

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With the question of the prices of agricultural products as compared with manufactures, of middlemen's profits, of retail prices as compared with wholesale, and of the growth and influence of monopolistic combinations, the case is altogether different. These are matters of high importance, dependent upon a large and complex mass of special facts having no relation whatever to the question of the quantity of the monetary medium. To study them to any purpose would require a vast amount of systematic and expert labor. But after the facts had been accumulated with patience however great, and had been classified with skill however refined, they would still require to have centered upon them the light of thoroughly scientific thinking, in order that they might yield results of real trustworthiness and value.

To imagine that there is any opposition between theoretical thinking and practical insight is to cherish a mischievous delusion. To think correctly and fruitfully in any such subject as this of prices, it is not *sufficient* to be a theorist; but it is indispensable. A man may be a theorist and yet blunder; the man that is not a theorist, and especially the man who prides himself on not being a theorist, is sure to blunder. And he is pretty sure to blunder doubly; to blunder in what he says himself, and to blunder in what he thinks the theorists say.

FABIAN FRANKLIN.

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AN INTRODUCTION TO CROCE'S PHILOSOPHY OF THE PRACTICAL

BY DOUGLAS AINSLIE

"A noi sembra che l'opera del Croce sia lo sforzo più potente che il pensiero italiano abbia compiuto negli ultimi anni."—G. DE RUGGIERO in *La Filosofia contemporanea,* 1912.

"Il sistema di Benedetto Croce rimane la più alta conquista del pensiero contemporaneo."—G. NATOLI in *La Voce,* 19th December, 1912.

THOSE acquainted with my translation of Benedetto Croce's *Æsthetic as Science of Expression and General Linguistic* will not need to be informed of the importance of this philosopher's thought, potent in its influence upon criticism, upon philosophy, and upon life, and famous throughout Europe.

In the Italian, *Philosophy of the Practical* is the third and last volume of the series, *Philosophy of the Spirit, Logic as Science of the Pure Concept* coming second in date of publication. But apart from the fact that philosophy is like a moving circle, which can be entered equally well at any point, I shall place this volume before the *Logic* in the hands of English readers. Great Britain has long been a country where moral values are highly esteemed; we are indeed experts in the practice, though perhaps not in the theory of morality, a lacuna which I believe this book will fill.

In saying that we are experts in moral practice I do not, of course, refer to the narrow conventional morality, also common with us, which so often degenerates into hypocrisy, a legacy of Puritan origin; but apart from this, there has long existed in many millions of Britons a strong desire to live well, or, as they put it, cleanly and rightly, and achieved by many, independent of any close or profound examination of the logical foundation of this desire. Theology has for some taken the place of pure thought, while for others early training on religious lines has been sufficiently strong to

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dominate other tendencies in practical life. Yet, as a speculative Scotsman, I am proud to think that we can claim divided honors with Germany in the production of Emmanuel Kant.

The latter half of the nineteenth century witnessed with us a great development of materialism in its various forms. The psychological, anti-historical speculation contained in the so-called Synthetic Philosophy (largely psychology) of Herbert Spencer was but one of the many powerful influences abroad, tending to divert youthful minds from the true path of knowledge. This writer, indeed, made himself notorious by his attitude of contemptuous intolerance and ignorance of the work previously done in connection with subjects which he was investigating. He accepted little but the evidence of his own senses and judgment, as though he were the first philosopher. But time has now taken its revenge, and modern criticism has exposed the Synthetic Philosophy in all its barren and rigid inadequacy and ineffectuality. Spencer tries to force Life into a brass bottle of his own making, but the genius will not go into his bottle. The names and writings of J. S. Mill, of Huxley, and of Bain are, with many others of lesser caliber, a potent aid to the dissolving influence of Spencer. Thanks to their efforts, the spirit of man was lost sight of so completely that I can well remember hearing Kant's great discovery of the synthesis *a priori* described as moonshine, and Kant himself, with his categoric imperative, as little better than a Prussian policeman. As for Hegel, the great completer and developer of Kantian thought, his philosophy was generally in even less esteem among the youth; and we find even the contemplative Walter Pater passing him by with a polite apology for shrinking from his chilly heights. I do not, of course, mean to suggest that estimable Kantians and Hegelians did not exist here and there throughout the kingdom in late Victorian days (the names of Stirling, of Caird, and of Green at once occur to the mind); but they had not sufficient genius to make their voices heard above the hubbub of the laboratory. We all believed that the natural scientists had taken the measure of the universe, could tot it up to a T—and consequently turned a deaf ear to other appeals.

Elsewhere in Europe Hartmann, Haeckel, and others were busy measuring the imagination and putting fancy into the melting-pot—they offered us the chemical equivalent of

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the wings of Aurora. We believed them, believed those materialists, those treacherous neo-Kantians, perverters of their master's doctrine, who waited for guileless youth with mask and rapier at the corner of every thicket. Such as escaped this ambush were indeed fortunate if they shook themselves free of Schopenhauer, the (personally) comfortable philosopher of suicide and despair, and fell into the arms of the last and least of the Teutonic giants, Friedrich Nietzsche, whose spasmodic paragraphs, full of genius but often empty of philosophy, show him to have been far more of a poet than a philosopher. It was indeed a doleful period of transition for those unfortunate enough to have been born into it: we really did believe that life had little or nothing to offer, or that we were all Overmen (a mutually exclusive proposition!) and had only to assert ourselves in order to prove it.

To the writings of Pater I have already referred, and of them it may justly be said that they are often supremely beautiful, with the quality and cadence of great verse, but mostly (save perhaps the volume on *Plato and Platonism,* by which he told the present writer that he hoped to live) instinct with a profound skepticism, that reveled in the externals of Roman Catholicism, but refrained from crossing the threshold which leads to the penetralia of the creed.

Ruskin also we knew, and he too has a beautiful and fresh vein of poetry, particularly where free from irrational dogmatism upon Ethic and Æsthetic. But we found him far inferior to Pater in depth and suggestiveness, and almost devoid of theoretical capacity. Sesame for all its Lilies is no Open Sesame to the secrets of the world. Thus, wandering in the obscure forest, it is little to be wondered that we did not anticipate the flood of light to be shed upon us as we crossed the threshold of the twentieth century.

It was an accident that took me to Naples in 1909, and the accident of reading a number of *La Critica,* as I have described in the introduction to the *Æsthetic,* that brought me in contact with the thought of Benedetto Croce. But it was not only the *Æsthetic,* it was also the purely critical work of the philosopher that appeared to me of great importance.

To bring the thought of Hegel within the focus of the ordinary mind has never been an easy task (I know of no one else who has successfully accomplished it); and Croce's work, *What is living and what is dead of the Philosophy of*

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Hegel, as one may render the Italian title of the book which I hope to translate, has enormously aided a just comprehension, both of the qualities and the defects of that philosopher. This work appeared in the Italian not long after the *Æsthetic,* and has had an influence upon the minds of contemporary Italians second only to the *Philosophy of the Spirit.* To clear away the débris of Hegel, his false conception of art and of religion, to demonstrate his erroneous application of his own great discovery of the dialectic to pseudo-concepts, and thus to reveal it in its full splendor, has been one of the most valuable of Croce's inestimable contributions to critical thought.

I shall not pause here to dilate upon the immense achievement of Croce, the youngest of Italian senators, a recognition of his achievement by his King and country, but merely mention his numerous historical works, his illuminative study of Vico, which has at last revealed that philosopher as of like intellectual stature to Kant; the immense tonic and cultural influence of his review, *La Critica,* and his general editorship of the great collection of *Scrittori d'Italia.* Freed at last from that hubbub of the laboratory, from the measures and microscopes of the natural scientists, excellent in their place, it is interesting to ask if any other contemporary philosopher has made a contribution to ethical theory in any way comparable to the *Philosophy of the Practical.* The names of Bergson and of Blondel at once occur to the mind, but the former admits that his complete ideas on ethics are not yet made known, and implies that he may never make them entirely known. The reader of the *Philosophy of the Practical* will, I think, find that none of Bergson's explanations, "burdened," as he says, with "geometry," and as we may say with matter, from the obsession of which he never seems to shake himself altogether free, are comparable in depth or lucidity with the present treatise. The spirit is described by Bergson as memory, and matter as a succession of images. How does the one communicate with the other? The formula of the self-creative life process seems hardly sufficient to explain this, for if with Bergson we conceive of life as a torrent, there must be some reason why it should flow rather in one channel than in another. But life is supposed to create and to absorb matter in its progress; and here we seem to have entered a vicious circle, for the intuition presupposes, it does not create its object.

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As regards the will, too, the Bergsonian theory of the Ego as rarely (sometimes never once in life) fully manifesting itself, and our minor actions as under the control of matter, seems to lead to a deterministic conception and to be at variance with the thesis of the self-creation of life.

As regards Blondel, the identification of thought and will in the philosophy of action leads him to the position that the infinite is not in the universal abstract, but in the single concrete. It is through matter that the divine truth reaches us, and God must pass through nature or matter, in order to reach us, and we must effect the contrary process to reach God. It is a beautiful conception; but, as de Ruggiero suggests, do we not thus return, by a devious and difficult path, to the pre-Hegelian, pre-Kantian, position of religious platonicism?[1]

This, however, is not the place to discourse at length of other philosophies. What most impresses in the Crocean thought is its profundity, its clarity, and its *completeness—totus teres atque rotundus.* Croce, indeed, alone of the brilliant army of philosophers and critics arisen in the new century, has found a complete formula for his thought, complete, that is, at a certain stage; for, as he says, the relative nature of all systems is apparent to all who have studied philosophy. He alone among contemporaries has defined and allocated the activities of the human spirit; he alone has plumbed and charted its ocean in all its depth and breadth.

A system! The word will sound a mere tinkling of cymbals to many still aground in the abstract superficialities of nineteenth-century skepticism; but they are altogether mistaken. To construct a system is like building a house: it requires a good architect to build a good house, and where it is required to build a great palace it requires a great genius to build it successfully. Michael Angelo built the Vatican, welding together and condensing the works of many predecessors, ruthlessly eliminating what they contained of bad or of erroneous: Benedetto Croce has built the Philosophy of the Spirit. To say of either achievement that it will not last for ever, or that it will need repair from time to time, is perfectly true; but this criticism applies to all things human; and yet men continue to build houses—for God and for themselves. Croce is the first to admit the incomplete-

[1] G. de Ruggiero, *La Filosofia contemporanea,* Laterza, Bari, 1912.

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ness, the lack of finality of all philosophical systems, for each one of them deals, as he says, with a certain group of problems only, which present themselves at a definite period of time. The solution of these leads to the posing of new problems, first caught sight of by the philosopher as he terminates his labors, to be solved by the same or by other thinkers.

And here it may be well to state very briefly the basis on which rests the *Philosophy of the Spirit,* without attempting to do anything more than to give its general outline. The reader should imagine himself standing, like bold Pizarro, on his "peak of Darien," surveying at a great distance the vast outline of a New World, which yet is as old as Asia.

The Spirit is Reality, it is the whole of Reality, and it has two forms: the theoretic and the practical activities. Beyond or outside these *there are no other forms of any kind.* The theoretic activity has two forms, the intuitive and individual, and the intellectual or knowledge of the universal: the first of these produces images and is known as *Æsthetic,* the second concepts and is known as *Logic.* The first of these activities is altogether independent, self-sufficient, autonomous; the second, on the other hand, has need of the first ere it can exist. Their relation is therefore that of double degree. The practical activity is the *will,* which is thought in activity, and this also has two forms, the economic or utilitarian, and the ethical or moral, the first autonomous and individual, the second universal, and this latter depends upon the first for its existence, in a manner analogous to *Logic* and to *Æsthetic.*

With the theoretic activity, man understands the universe; with the practical, he changes it. There are no grades or degrees of the Spirit beyond these. All other forms are either without activity, or they are verbal variants of the above, or they are a mixture of these four in different proportions.

Thus the Philosophy of the Spirit is divided into *Æsthetic, Logic, and Philosophy of the Practical* (Economic and Ethic). In these it is complete, and embraces the whole of human activity.

The discussion of determinism or free will is of course much more elaborated here than in the Æsthetic, where exigencies of space compelled the philosopher to offer it in a condensed form. His solution that the will is and must be

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free, but that it contains two moments, the first conditioned, and that the problem should be first stated in terms of the Hegelian dialectic, seems to be the only one consonant with facts. The conclusion that the will is autonomous and that therefore we can *never* be obliged to do anything against our will may seem to be paradoxical, until the overwhelming argument in proof of this has been here carefully studied.

Croce's division of the practical activity into the two grades of Economic and Ethic, to which Kant did not attain and Fichte failed fully to perceive, has for the first time rendered comprehensible much that was hitherto obscure in ancient history and contemporary history. The "merely economic man" will be recognized by all students of the *Philosophy of the Practical,* where his characteristics are pointed out by the philosopher; and a few years hence, when Croce's philosophy shall have filtered through fiction and journalism to the level of the general public, the phrase will be as common as is the "merely economic" person to-day.

For indeed, all really new and great discoveries come from the philosophers, gradually filtering down through technical treatises and reviews, until they reach the level of prose fiction and of poetry, which, since the *Æsthetic,* we know to be one and the same thing with different empirical manifestations. In truth, the philosophers alone go deeply enough into the essence of things to reach their roots. Thus some philosophy, generally in an extremely diluted form, becomes part of every one's mental furniture and thus the world makes progress and the general level of culture is raised. Thought is democratic in being open to all, aristocratic in being attained only by the few—and that is the only true aristocracy: to be on the same level as the best.

Another discovery of Croce's, set forth in this volume for the first time in all the plenitude of its richness, is the theory of Error. The proof of the practical nature of error, of its necessity, and of the fact that we only err because we will to do so, is a marvel of acute and profound analysis. Readers unaccustomed to the dialectic may not at first be prepared to admit the necessary forms of error, that error is not distinct, but opposed to truth and as such its simple dialectic negation, and that truth is thought of truth, which develops by conquering error, which must always exist in every problem. The full understanding of the Crocean theory of error throws a flood of light on all philosophical

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problems, and has already formed the basis of at least one brilliant study of contemporary philosophy.

To the reduction of the concept of law to an economic factor, which depends upon the priority and autonomy of Economic in relation to Ethic, is devoted a considerable portion of the latter part of the *Philosophy of the Practical,* and it is easy to see that an elaborate treatment of this problem was necessary, owing to the confusion as to its true nature that has for so long existed in the minds of thinkers, owing to their failure to grasp the above distinction. In Great Britain, indeed, where precedent counts for so much in law, the ethical element is very often so closely attached as to be practically indistinguishable from it, save by the light of the Crocean analysis. In the *Logic as Science of the Pure Concept* will be found much to throw light upon the *Philosophy of the Practical,* where the foreshortening of certain proofs (due to concentration upon other problems) may appear to leave loopholes to objection. Thought will there be found to make use of language for expression, though not itself language; and it will be found useless to seek logic in words, which in themselves are always æsthetic. For there is a duality between intuition and concept, which form the two grades or degrees of theoretic knowledge, as described also in the *Æsthetic.* There are two types of concept, the *pure* and the *false* or *pseudo concept,* as Croce calls it. This latter is also divided into two types of representation—those that are concrete without being universal (such as the cat, the rose), and those that are without a content that can be represented, or universal without being concrete, since they never exist in reality (such are the triangle, free motion). The first of these are called empirical pseudo-concepts, the second abstract pseudo-concepts: the first are represented by the natural, the second by the mathematical sciences.

Of the pure concept it is predicated that it is ineliminable, for while the pseudo-concepts in their multiplicity are abolished by thought as it proceeds, there will always remain one thought, namely, that which thinks their abolition. This concept is opposed to the pseudo-concepts: it is ultra or omni-representative. I shall content myself with this brief mention of the contents of the *Philosophy of the Practical* and of the *Logic* upon which I am now working.

Since the publication of *Æsthetic as Science of Expres-*

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sion and General Linguistic, there has been some movement in the direction of the study of Italian thought and culture, which I advocated in the Introduction to that work. But the Alps continue to be a barrier, and the thought of France and of Germany reaches us, as a rule, far more rapidly than that of the home of all the arts and of civilization, as we may call that Italy which contains within it the classical Greater Greece. A striking instance of this relatively more rapid distribution of French thought is afforded by the celebrated *Lundis* of Sainte-Beuve, so familiar to many readers; yet a critic greater in depth than Sainte-Beuve was writing at the same period—greater in philosophical vision of the relations of things, for the vision of Sainte-Beuve rarely rose above the psychological plane. For one reader acquainted with the *History of Italian Literature* of de Sanctis, a hundred are familiar with the *Lundis* of Sainte-Beuve.

At the present moment the hegemony of philosophical thought may be said to be divided between Italy and France, for neither Great Britain nor Germany has produced a philosophical mind of the first order. The interest in Continental idealism is becoming yearly more keen, since the publication of Bergson's and of Blondel's treatises, and of Croce's *Philosophy of the Spirit.* Mr. Arthur Balfour, being himself a philosopher, was one of the first to recognize the importance of the latter work, referring to its author in terms of high praise in his oration on Art delivered at Oxford in the Sheldonian Theater. Mr. Saintsbury also has expressed his belief that with the *Æsthetic* Croce has provided the first instrument for scientific (*i.e.* philosophical, not "natural" scientific) criticism of literature. This surely is well, and should lead to an era of more careful and less impartial, of more accurate because more scientific criticism of our art and poetry.

I trust that a similar service may be rendered to Ethical theory and practice by the publication of the present translation, which I believe to be rich with great truths of the first importance to humanity, here clearly and explicitly stated for the first time and therefore (in Vico's sense of the word) "created," by his equal and compatriot, Benedetto Croce.

"Then leaning upon the arm of time came Truth, whose radiant face,
Though never so late to the feast she go, hath aye the foremost place."

DOUGLAS AINSLIE.

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FRANCIS THOMPSON

BY DARRELL FIGGIS

At the heart of every poet's web of song there is a knot that must be untied before its pattern can be unriddled. Or, as one has said elsewhere, there is always some central room in a man's house of Art which, if we can reach, will make all the dwelling stand round us in order and in harmony, and with a manifest purpose—or at least show us where the purpose fails if it be lacking. In the case of Francis Thompson that knot is not hard to find. It accosts us at the very outset in the facts attending the publication of his books. Soon after his recovery as a fugitive in the labyrinths of modern civilization he entered upon a great period of song. The dreams he had dreamed when the hardest pang whereon he laid his mutinous head was indeed a Jacob's stone, burst into flower of song when the arches of Covent Garden were exchanged for the peace of Storrington. The sight of his rescuer's children and the gorgeous pomp with which the sun went down evening by evening on his soundless way, on the one hand and the other, in the peace of innocence and the peace of majesty, swept the strings of his spirit, and melodies came, slowly at first, but swelling in volume as they increased in number. Yet it is not the first evocation of song that chiefly matters. Poetry attests its truth to life in that it is the continuing and maturing of purpose that give it its greater significance. Francis Thompson's first volume of *Poems* was published in 1893; and it was followed two years later by *Sister Songs*. Two years later saw the publication of *New Poems;* and with that, save for a spasmodic irruption of song, chiefly in poems penned for special occasions and of diminishing value, his output ceased. When he was asked thereafter if he proposed subsequently to publish a further volume he would answer that he had concluded all he had to say. So resolute a refusal to continue a song the

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inspiration of which had dried fitted well with the mental discipline that became his philosophy. Some of his later poems, deriving a little from alien manners, show that it was wise also. Yet a decay so soon, succeeding to so sudden and splendid a flower, is not easy to understand; and, indeed, there are not a few poems in his last volume where it is plain that Francis Thompson himself was baffled by it.

So he could declare that:

> "All joys draw inward to their icy urns,
> Tormented by constraining rime,
> And there
> With undelight and throe prepare
> The bounteous efflux of the vernal time.
> Nor less beneath compulsive law
> Rebukèd draw
> The numbèd musics back upon my heart."

Though he bravely continued:

> "Whose yet triumphant course I know
> And prevalent pulses forth shall start,
> Like cataracts that with thunderous hoofs charge the disbanding snow,"

yet we know that the musics remained numb upon his heart, that the constraining rime, however caused, was not thereafter to be broken. There are facts in his life that would seem to indicate some of his personal habits as the cause of this. We know, drug-taker though he was, and increasingly so in his later years, that none of his poems (save "Dream Tryst," in his first volume) were written while he was under the influence of laudanum. Did we not know it we might have inferred so much; for, from his own work, it is clear that Francis Thompson conceived more highly, more divinely of Poetry than to make it the sport of weightless fancies. He took its business greatly, as it should be taken. And his increasing addiction to the drug would seem to account for his failure of song, since it would bring repugnance as well as ineffectuality. But when one reaches so far back one reaches a place where many occasions melt into one. One reaches, in short, a place where a human impulse has not yet differentiated itself into tendencies for which words can be provided. The influence of the drug induced a carelessness (at its gentlest expression) of personal appearance that cut him away from human society. His very garrulity to the few whom he knew was a pathetic banner in witness

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of that fact; and his gaiety in that company had, out of that company, to recoil upon himself. The distinguished poet who was the center of that circle, who was also the recipient of the poem "Love in Dian's Lap," has herself declared that his presence there was a sufficient refutation of his reputed unhappiness. "No soul," says she, "oppressed by sadness is busy, as he was, with unnecessary words." Unnecessary words, unfortunately, are too often the token of unhappiness: of a yearning for company that one's own temperament frustrates. Bubbles on the face of the waters may be effervescence; they may also be a tragic symbol. And the results of this would echo in his song until it made the very habit of song difficult to maintain. The poet who could so tragically say:

"It seemeth me too much
I do rehearse for such
A mean
And single scene.
Life is a coquetry
Of Death, which wearies me,
Too sure
Of the amour";

who could declare, "For who says, 'Lo, how sweet!' has first said, 'Lo, how sad!'" has found a gesture of sorrow too native to his soul for its continued building of such song as he would desire.

Yet the order may be inverted; and with equal justice. Even as his personal habits may have tended to constrict his song, so in the very song itself he may reveal the causes that, springing from the temperamental habit of his mind, led him back to the false solace of laudanum. In that case his song would unravel itself to us by revealing the heart of its builder and maker. For of all poets Francis Thompson seemed compelled to expound himself even while he assumed the exposition of other things. It was so in all that he did. When he was set to the task of praising Cecil Rhodes he celebrated himself; and Rhodes only in the degree in which he was like himself. His famous prose essay on Shelley takes its value from the same cause. Strictly considered, it is not criticism (to its considerable gain, it needs scarcely be said), nor is it exposition. Where, for example, he says that Shelley made the universe his box of toys, one scarcely needs to be reminded that this in no way describes the man who

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made his life a burning quest for reality; though it fitly denotes an important trait in Francis Thompson himself. So when he was asked to write a poem on Cardinal Manning, it was not "To the Dead Cardinal of Westminster" that he sang, but of his own tempest-riven spirit.

"Lies one I saw on earth;
One stricken from his birth
With curse
Of destinate verse.

What place doth He ye serve
For such sad spirit reserve,—
Given,
In dark lieu of Heaven,

The impitiable Daemon,
Beauty, to adore and dream on,
To be
Perpetually

Hers, but she never his?"

The stanza form he chose finely lends itself to the expression of his withering irony, that is yet not so wholly irony as it is also a tragic despair; but it is scarcely in such incisive forms that the great dead will be praised.

Yet each instance given is illuminating; and they all lend each other their light. Shelley, for example, never made the universe his box of toys, because Shelley would never have called Beauty "the impitiable Daemon," would never have imagined himself stricken with curse of destinate verse. The whole of Shelley's life was a quest he had to satisfy: Francis Thompson's life, on the other hand, was puzzled by an antinomy he always sought to resolve. In one form or another it is present in all his song, giving it its peculiar plangency, and creating at once its strength and its weakness. In the high things of Love, before the face of Nature, and in all the commerce of men in the strange business of mortality, it is always assailing him. Man, for him, was

"a swinging wicket set
Between
The Unseen and Seen";

and while the Seen was always haunting him with its appeal (as in his function as a poet it must needs have done), his body was not strong enough to possess it and to pass it

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through to the unseen of which it stood as a flaming symbol, a shining portal; so he turned aside from it to enter otherwise to the Unseen, even while its appeal yet remained before his eye.

In his first volume this is already evident. There, at the outset of the series "Love in Dian's Lap" he creates for his delight the visual satisfaction that he needs.

> "As lovers, banished from their lady's face,
> And hopeless of her grace,
> Fashion a ghostly sweetness in its place,
> Fondly adore
> Some stealth-won cast attire she wore,
> A kerchief, or a glove:
> And at the lover's beck
> Into the glove there fleets the hand,
> Or at impetuous command
> Up from the kerchief floats the virgin neck"—

so he finds his thoughts tending "Before Her Portrait in Youth." Yet he concludes by crying his

> "Curse on the brutish jargon we inherit,
> Strong but to damn, not memorize a spirit!
> A cheek, a lip, a limb, a bosom, they
> Move with light ease in speech of working-day;
> And women we do use to praise even so."

Thus to the

> "Chaste and intelligential love
> Whose form is as a grove
> Hushed with the cooing of an unseen dove"

he enters: he bursts the gates, says he, in order to go to the temple (though, to be accurate, he does not enter by the gates at all), for

> "How praise the woman, who but know the spirit?
> How praise the color of her eyes, uncaught
> While they were colored with her varying thought?
> How her mouth's shape, who only use to know
> What tender shape her speech will fit them to?
> Or her lips' redness, when their joinèd veil
> Song's fervid hand has parted till it wore them pale?"

From the point of view of the answer to Life's riddle Poetry, at its highest, purports to give, it is evident that he has not resolved his antinomy: he has turned aside from it. The simple fact that high occupation with high things may

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mold and beautify the physical appearance is itself sufficient to show that the Seen may symbolize the Unseen, and is therefore not lightly to be turned away from because of the "brutish jargon" inherited from a merely licentious muse. In turning to the things of the spirit Francis Thompson ranked himself as of the higher order of poets; and in the very glowing imagery in which he cast his conception, derived as it was from visible tokens of beauty, he found a better resolution than in the explicit idea which it contained. But it is evident that the idea itself, over-intellectual as it needs must be under the circumstances, was ordered for him, partly by the tragic disposition of his life, and partly by that which grew out of it, his unfamiliarity with the commerce of mankind. It was owing to this that, needing the support of the Seen, needing, that is to say, its own proper, however inadequate, symbol, it was under the necessity of creating its own symbols. It reared itself on, it knit itself together by a tissue of intellectual conceits that, in that attenuated air, that remote and not altogether real place, became frigid and deliberate—as in the closing paragraph of "Her Portrait." It is but a scholiast's labor, and profitless enough, to say whether or no these conceits have a literary derivation dating from the seventeenth century. It is true that Francis Thompson knew that literature well. It is also true that like subjects suggest like manners. But it is more to the point to see how he faced his own poetic problem, however he may or may not have remembered the speech of others.

Face to face with Earth, or the visible glory of the heavens, his problem is the same, though it takes another shape. When one recalls how much Nature meant to him during the days at Storrington, how she calmed and cleansed him there, and how his "Ode to the Setting Sun," his "Corymbus for Autumn," and indeed most of his poems at that time, were steeped in that report, it is not easy to imagine the change of mind that must have occurred when he penned the following lines:

> "Lo, here stand I, and Nature, gaze to gaze,
> And I the greater. Couch thou at my feet,
> Barren of heart and beautiful of ways,
> Strong to weak purpose, fair and brute-brained beast.
> I am not of thy fools
> Who goddess thee with impious flatteries sweet,
> Stolen from little Schools

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Which cheeped when that great mouth of Rydal ceased.
A little suffer that I try
What thou art, Child, and what am I—
Thy younger, forward brother, subtle and small,
As thou art gross and of thy person great withal."

It is interesting to note that throughout this poem, of "Nature: Laud and Plaint," the decline of fervor means the banishment of inspiration: it points the way to the silence about to ensue. In the first of the poems in which he won to the larger spaces of his song, in the "Ode to the Setting Sun," the fervor is such that it overburdens his utterance with its excitement; and it is here, noteworthily, that he cries, even with the sacerdotal emblem beside him,

"Yet in this field where the Cross planted reigns,
I know not what strange passion bows my head
To thee, whose great command upon my veins
Proves thee a god for me not dead, not dead!"

It was because he could declare

"Yet ere Olympus thou wast, and a god!
Though we deny thy nod,
We cannot spoil thee of thy divinity,"

that he could tremble to the excitement of—

"If with exultant tread
Thou foot the Eastern Sea
Or like a golden bee
Sting the West to angry red,
Thou dost image, thou dost follow
That King-maker of Creation,
Who, ere Hellas hailed Apollo,
Gave thee, angel-god, thy station;
Thou art of Him a type memorial."

Sitting at the feet of doctrinaires, he forgot, in the end, that the Christ-word did not dismiss Paganism: it included it—that the Christ-word was not a denial, but an affirmation. But in the mean time the challenge of opposing laws was being called in his own mind. By the act of his will he had to put himself into relation with Reality; he had to make his choice, or wisely to guide the making of it; and in his song the issue reveals itself, at first by implication, but in the end explicitly. There can be but two ways in which this will may

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put itself into action: either by a greater or lesser degree of violence, or by the peaceful resolution that the "great mouth of Rydal" sang. Neither has a monopoly of wisdom; for wisdom lies in a man's truth to the laws and reports of his own soul, not in his accepted obedience to a code. In Wordsworth's case (since Francis Thompson has himself cited Wordsworth) it is worthy of note that in the resolution he found he saw everywhere, in imperative brightness, "the Light that never was on sea or land," while yet never losing sight of the more familiar aspect of Earth, or of man when faithful to earth. The value of the latter arose, indeed, by reason of the intense reality of the former, of which they were a partial appearance and a symbol. And with Francis Thompson the shining symbols of things seen cried loudly through his senses to his spirit. None who has read *Sister Songs* can fail to note, even to bewilderment, how the trailing metaphors, drawn from the images of things seen, shift and pass and change over the face of the poem in token of the ineluctable things they imprison and typify. The very violence of some of the metaphors betokens the violence of the soul-thrift of the poet; the very vagrancy of some of them displays the pleasure of the writer, who rested, amid painful things, to make the universe his box of toys.

Some discipline had to come whether it was the discipline of order, leading to solution, or the discipline of renunciation, leading to some form of asceticism. The glory and miracle of the seen world, momentarily displaying the invisible universe as it comes into sight and passes out of sight in flux and reflux (like a globe whirling in darkness on only one tangent of which falls a bar of light), could not exclude his attention, however much it might excite him. The mind must pass on to its higher business, or rebate its achievement; and the first should hold promise of the last. But as Francis Thompson sang out his spiritual progress and discovery it is plain to see that he begins to take the way of renunciation and not that of solution. In the man himself this would make an interesting psychological study. There is no doubt that doctrinaire theology (embodying, in the first instance, the progress of other and probably wholly alien minds) was largely responsible for this. It housed him from the visible beauty that assailed and excited him, and which he could not in his body sustain, till in the agony of desire and denial cry after cry of pain was wrung from him.

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"O God! Thou knowest if this heart of flesh
Quivers like broken entrails, when the wheel
Rolleth some dog in middle street, or fresh
Fruit when ye tear it bleeding from the peel."

Each of his songs began now to echo to this cry of pain; and with each quivering of the heart of flesh his estate grew worse. Moreover, having taken the way of renunciation, it followed that each poem was a new submission to this Pain. So he declares:

"I witness call the goddess, Pain,
Whose mirrored image trembles where it lies
In my confronting eyes,
If I have learned her high and solemn scroll:—
Have I neglected her high sacrifice,
Spared my heart's children to the sacred knife,
Or turned her customed footing from my soul?
Yea, thou pale Ashtaroth who rul'st my life,
Of all my offspring thou hast had the whole.
One after one they passed at thy desire
To sacrificial sword or sacrificial fire."

To the lady of "Love in Dian's Lap" he had sung—

"Teach how the sacrifice may be
Carven from the laurel tree";

Now the mistress of his vision decrees a more poignant way:

"Learn to dream when thou dost wake,
Learn to wake when thou dost sleep.
Learn to water joy with tears,
Learn from fears to vanquish fears;
To hope for that thou dar'st not grieve;
Plow thou the rock until it bear;
Know, for thou else couldst not believe;
Lose, that the lost thou may'st receive;
Die, for none other way canst live."

He who was "Beauty's eremite"—he who called himself "Bird of the Sun! the Stars, wild honey-bee!"—he who beside the tree saw the elf that was its truer self, in the ordeal of pain is disciplining himself to a strange and stern path. The whole universe is, indeed, linked in an irrefragable unity—

"That thou canst not stir a flower
Without troubling a star";

but the glory of the visible world is put by in order that the spirit may live as though in independence of it in the world

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of its own order. Instead of disciplining himself in the test of incarnation, he seeks to discipline himself out of incarnation and await the dissolution that shall bring him peace.

> "When this morass of tears, then drained and firm
> Shall be a land—
> Unshaken I affirm—
> When seven-quired psalterings meet;
> And all the gods rove with calm hand in hand,
> And eyes that know not trouble and the worm."

And it is that consummation that he celebrates, by prophetic anticipation, in the superb close to that noblest of all his poems, the greatest and best-ordered, "An Anthem of Earth." If "The Hound of Heaven" (in valueless literary appraisal) be wilder in its appeal, swifter and more various of tumult, at least the two poems have a significant relation each to the other. For the soul that fled all ways from the approaching footfall came to a stern halt while it awaited the death that both closes and opens Life, "for they are twain yet one, and Death is Birth."

How much it cost him to maintain so severe a renunciation its very austerity may suggest; and the more truly so as it was indeed an austerity of renunciation rather than the triumphant austerity of solution. Denials do not give the glad answers that just affirmations may offer. Heaven is not to be entered by skirting Earth, as the beauty blazoned over her spaces will testify. So Francis Thompson proved. He might, in "By Reason of Thy Law," in a mien of fine dignity declare his "certitude of haughty fate," but there was also "The Dread of Height" to be feared.

> "Not the Circean wine
> Most perilous is for pain:
> Grapes of the heaven's star-loaden vine,
> Whereto the lofty-placed
> Thoughts of fair souls attain,
> Tempt with a more retributive delight,
> And do disrelish all life's sober taste.
> 'Tis to have drunk too well
> The drink that is divine,
> Maketh the kind earth waste,
> And breath intolerable."

Throughout the whole of this poem, full as it is of passages that claim quotation, it is strictly the dread of height that he sings, not the darkness that so strangely comes upon the soul

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after periods of wonderful illumination. Such a dread will seem a strange thing; yet it was justified thus far that he had not built himself up to that height, and so was not well assured of its attainment.

Yet that this is not all of truth "New Year's Chimes" and "In No Strange Land" (now entitled by Mr. Meynell "The Kingdom of God") are sufficient to show. In one place he declares of his song that

> "Within her eyes' profound arcade
> Resides the glory of her dreams;
> Behind her secret cloud of hair,
> She sees the Is beyond the Seems";

but in these two poems he sees the Is through and by means of the Seems, and that is a sight that brings its own faith with it. It may not be given to all to see "shine the traffic of Jacob's ladder Pitched betwixt Heaven and Charing Cross," for all may not approve Charing Cross as in itself a place where bushes are wont to burn—though human hearts may burn there truly enough, independently of their environment. But the vision that abides steadfast is the vision of—

> "One to set, and many to sing,
> *(And a million songs are as songs of one),*
> One to stand and many to cling,
> The many things and the one Thing,
> The one that runs not, the many that run.
> . . . . . .
> "And the more ample years unfold
> *(With a million songs as song of one),*
> A little new of the ever old,
> A little told of the never told,
> Added act of the never done.
>
> "Loud the descant, and low the theme,
> *(A million songs as song of one),*
> And the dream of the world is dream in dream,
> And the one Is is, or nought could seem;
> And the song runs round to the song begun."

There is no renunciation in that song; it is pure solution, wherein symbols and reality merge, and faith is justified of its vision, for the Seen takes its just value in a world of tuition. Its simplicity of speech, too, is in significant contrast with the troubled tumult of much of his song. Yet it all marks the way he went; and its Gothic splendor, typifying his spiritual adventure, has a high place in that Poetry that is also Prophecy. DARRELL FIGGIS.

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WHY THE CURRENCY BILL SHOULD PASS

BY SAMUEL UNTERMYER

RADICAL differences of opinion are bound to arise in the framing of any scheme of Currency legislation. It is hopeless to anticipate anything like unanimity even on the fundamental principles that should govern. Self-interest, ignorance, and honest differences on a subject so highly specialized and complex are the factors that render solution so difficult.

There is no system of recognized superiority, as is evidenced by the fact that no two countries have the same system. If, therefore, we wait until the unanimous judgment of any political party or other body, however well informed or well intentioned, is a unit upon any given plan, we shall accomplish nothing.

It is only by maintaining an open, patient, and judicial attitude toward the many arguments that may be presented for and against each of the propositions involved in any given plan and by a process of generous compromise that we can hope to reach a result. The treatment of the currency is not legitimately a party issue, and it is hoped that it is not to be so regarded.

With all due regard to the many able and patriotic gentlemen who are engaged in the banking business in this country, I venture to suggest that there is danger in relying too largely upon their judgment and in taking counsel from them too liberally on a subject in which their personal interests are so vitally involved. They cannot possibly be safe advisers, no matter how well intentioned and public-spirited they may believe themselves. They are the custodians of the rights of their shareholders whose interests they are in honor bound, above all other things, to protect and advance. That is the point of view from which we are

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entitled to expect that they must and will primarily view any proposed legislation. They are not dealing with their own property. Their first duty is to advocate the interests intrusted to their care. Nor is it fair to regard their recent suggestion that under certain conditions they will surrender their charters and go out of the National Banking System in the light of a threat. If they are right it is merely a frank reminder that they hold a strategic position, due to our unfortunate dual form of government. It is an entirely legitimate argument for them to employ in the furtherance of the interests they represent.

The bankers are about as patriotic in this controversy as are the manufacturers in the protected industries in dealing with the tariffs in which they are interested or as any other class of citizens similarly situated. I have no doubt that in both of these instances the gentlemen concerned believe the positions assumed by them to be sound and public-spirited, but the unconscious bias of personal interest that is inherent in human nature renders such advice worthless except as the argument of an interested party which is to be carefully scrutinized and weighed. Treating this as a question of expert opinion, we all know how unreliable and irreconcilably conflicting are such opinions where bias enters as a factor. The supposed authority with which the expert speaks and the presumed ignorance of the tribunal that he is endeavoring to instruct serve greatly to accentuate the danger.

The shifting attitude of the bankers with respect to the wisdom of banking control as against government control of the issue of currency is fairly illustrative of the peril of submitting blindly to the guidance to which we are invited. They were a unit in the championship of the Aldrich Bill for the establishment of a Central Bank and for its absolute control by the bankers. They assisted to maintain for years and at great expense an organization to spread that propaganda. Yet it is admitted to-day by many of the best-informed men in the banking world that a Central Bank would not be best adapted to our needs and that the expansion and contraction of the currency of a nation is essentially a Governmental function that should never be under private control.

One of the most profound students of finance in this country is Mr. Paul M. Warburg, the well-known New York

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banker. He is a recognized authority—and deservedly so. He was educated in the science of finance through a lifetime of experience in Germany, where the problems are perhaps better understood than in any other part of the world. He was an ardent champion of the Aldrich Bill, and is by many supposed (whether rightly or wrongly) to be its chief author. The fact that even the ablest of experts is fallible, and that the instinct of the country was more reliable than the judgment of the banking community, is well illustrated by Mr. Warburg's changed point of view with respect to the Aldrich Bill as evidenced by the accompanying article in which he frankly admits the justice and desirability of Governmental control and its advantages over the banking control that was the basis of the Aldrich Bill. He also concedes that a satisfactory plan can be worked out without a Central Bank, and with characteristic breadth and candor points to numerous particulars in which the pending bill is a distinct improvement.

And yet it seems only yesterday that it was considered heresy to question the perfection of the Aldrich Bill, and spelled disaster to take out of the hands of the bankers the control of the issue and regulation of the currency of the nation! Now they tell us that private control would not be proper and that they do not want it. All they ask now is representation on behalf of the bankers in the performance of this purely public and Governmental function of issuing money to them. They want to sit on both sides of the table —to be borrowers and to be represented in the Government body that passes judgment on their loans and the security they offer.

When these gentlemen tell Congress that their onslaught upon this Bill is in the spirit of patriotic co-operation unaffected by private interest they are unconsciously over-estimating their moral and intellectual strength. They are not able to judge fairly in a cause so peculiarly their own.

Whilst, therefore, it would be intolerable folly to refuse to listen patiently and judicially to the development of their point of view and to weigh carefully the arguments that their experience may suggest, Congress cannot be expected to accept at its face value their prophecies of disaster or their polite warning that they would be compelled in self-preservation to exchange their Federal charters for State charters unless their particular solution is accepted.

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This brings us to the consideration of an important preliminary question that must be squarely met and determined now, before Congress can make any progress with Currency Reform. Is it true that the country can have no effective legislation except by the grace and with the approval and co-operation of the National Banks? Putting the question broadly and brutally, Must they be *coaxed* into the new system, or will they be *forced* by self-interest into the pending plan?

If no Currency Law can be made effective except by their grace and with their voluntary co-operation it follows that we must either let them write the law they demand, even though it does not meet the public requirements, or go on as at present with the inelastic, unsound, absurd system under which we have been staggering, until we can amend our Constitution so as to unify the system.

Have we really reached such an impasse? Are we in any such plight? I think not.

It is manifestly to their interest to accept the Bill as it stands. That is after all the sole criterion by which to judge the probabilities of their action. If the Bill should be amended—as it should be—to require that no State institution can become a member of any Reserve Bank unless its charter powers are restricted to those possessed by a National Bank, and if it be strengthened so that by no circumlocution could a non-member, indirectly through a member or otherwise, secure any of the rediscount benefits, there would be no sound incentive to a National Bank to retire and many reasons why no National or State Bank will be able to exist outside the membership of a Reserve Bank. The ability to rediscount its paper and to utilize its credit in the form of acceptances and thus safely and conservatively to use its capital, deposits, and credit over and over again will be a compelling power against which the non-member bank will not be able to compete.

On the other hand, it has been suggested that the character of the paper dealt in by the small country banks is such—and that the amounts are so small—as to make this paper ineligible for rediscount, and that they would be merely furnishing capital for the use of the larger banks. There is no basis for any such assumption. If there were, the plan would not be worthy of discussion. It ignores the fact that even though the makers are obscure and unknown the paper is to

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bear the indorsement of the local bank, and the further fact that in foreign countries the business of the Central Government Bank consists largely in rediscounting bills and acceptances of the small country tradesmen and farmers through the local agencies that the Government Bank has scattered throughout the country. The success of the pending experiment depends on the strength of its appeal to the small borrowers and the almost universal use of its facilities by them, as is the case in European countries. During the hearings before the Senate Committee Senator Crawford of South Dakota argued that the small banks would oppose the proposed compulsory subscription to the capital of the Reserve Banks because their paper was of too long maturity to be available for rediscount and the proposed subscription would deplete their loanable funds without corresponding benefit. Did it occur to the Senator that, whatever might have been the original maturities of the bills held by these small banks, they are constantly maturing, and a given proportion would always be available for discount at some time even though not when at first received by the banks, and that they would therefore be quite as available as the short-time paper?

The Bank of France and its branches are open to everybody. Merchants, manufacturers, artisans, farmers — all alike. Any one may open an account with it for a trifling amount. It discounts for every one who has a current account, bills of exchange, checks, bills to order, and commercial and agricultural warrants which have not more than three months to run. The Bank and its branches accept for deposit and discounts without distinction bills and acceptances that are payable in any of the 467 towns in which it undertakes to collect bills. The minimum amount subject to discount was lowered in 1898 to five francs (ninety-six cents), and the number of small bills discounted by the banks has never ceased to increase since then. In 1911, 55 per cent. of all bills discounted was less than twenty francs ($3.86).

The Reichsbank will accept as low as ten marks, and will take any bill having three months to run bearing at least two good signatures. Under the proposed Bill the member banks of the Reserve Bank will perform the function of these agents of the Continental Central Banks. There is no basis for the assumption that the Reserve Banks will not be quite as useful, if not more so, to the small member banks than to their more important members. All the probabilities, based

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on experience, are the other way. It is difficult to credit the accuracy of the claim that the country banks are objecting to subscribing 20 per cent. of their capital to the Reserve Bank, of which 10 per cent. is to be paid in and the balance to remain as an uncalled liability, and that they are responsible for the demand that the subscription and liability be each reduced one-half. The 10 per cent. of their capital which they invest is a mere bagatelle as compared with the reserves that they will be able to release and employ through their Reserve Banks, while they will use their capital, deposits, and credit over and over again through the privileges of rediscount and acceptances. The reduction of their required reserves from 15 per cent., as at present, to 12 per cent., as proposed, will in itself more than offset this stock investment. Besides, they in fact lose no part of their capital. They can reborrow it from their Reserve Bank and thus get back the use of their money and at the same time earn the dividend on the stock. Presumably, every member will rediscount in its proportion of the available funds. The 33 per cent. reserve requirement of the Reserve Bank applies only to demand liabilities. It does not include resources derived from the sale of its capital stock.

I submit, therefore, that the attractions of the plan are irresistible for the small banks—both State and National—and that this Bill does not depend upon the grace of the banks, nor should Congress depart from lines that it believes to be sound and just in deference to any such fear.

But there is still another and controlling reason for rejecting the view that we have no alternative but to allow the banks to write this Bill. If the country cannot have a system based on the membership and co-operation of the banks, we can, if need be, have one in competition with them, at least equally sound and far more in the public interest. This Bill as it has now been amended is far more generous to the banks than any known system, as will be hereafter shown. It unduly and unnecessarily protects the banks from wholesome competition to an extent heretofore unknown. In that respect it is unsound and is a radical departure from the principle on which the European Central Banks are operated.

As I read the Bill the Reserve Banks are not allowed to take private deposits, nor to buy, sell, discount, or rediscount *domestic* bills or notes in the open market or by any means except for or through the member banks. In that way all

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healthy competition in the discount market is strangled, and the only effective way of keeping down the rate is prevented. If we ever hope to establish a discount market the Bill must be amended in the latter particular.

I am aware that the Committee on Banking and Currency of the House in its Report accompanying this Bill (p. 52) claims that the Reserve Banks are permitted to engage in these transactions, as they should be. If this was the intention there is grave doubt whether the Bill accomplishes the purpose. It authorizes the purchase in the open market of

"prime bankers bills and bills of exchange *of the kinds* and maturities made eligible for rediscount."

The only classes of paper "made eligible for rediscount" (Sec. 14) are notes and bills of exchange bearing the indorsement of a member bank and acceptances of a member bank involving the exportation or importation of goods; while Section 17 specifically provides that

"All domestic transactions of the Federal Reserve Banks involving a rediscount operation or the creation of deposit accounts shall be confined to the Government and the depositing and Federal Reserve Banks with the exception of the purchase and sale of Government or State securities or of gold or bullion."

As these are the only provisions bearing on this subject, it is difficult to understand the basis for the Committee's construction. Yet it is all-important that there should be such power and that it should at times be freely exercised as the most effective means of keeping down the private discount rate in a given locality as against local combinations and other conditions resulting in an excessive rate and in order to maintain an active discount market.

In England, France, Germany, and other countries the Central or Government Banks take private deposits and buy paper directly in the open market in competition with the private banks, bankers, and individuals who are their customers and for whom they rediscount. In this way the private discount rate is regulated.

In 1906 the Reichsbank had 70,000 depositors, of which only 2,500 were banks. There were 26,000 merchants, 9,500 farmers, 22,000 industrial companies. The first deposit must amount to not less than 150 marks ($37), and the account is not allowed to go below 50 marks ($12.25), but the smallest deposit entry allowed is 2½ cents.

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In the same way the Banks of France, England, and other countries have vast numbers of depositors, of which only a small proportion are banks. All the European Government and quasi-Government banks compete with the private institutions both in the taking of deposits and in the purchase and discount of commercial paper, except that they allow no interest on deposits.

This Bill, following the lines of least resistance and apparently in the laudable desire of its framers to over-generously meet the views of the banks (but from what I believe to be a mistaken conception that they must at all costs have their co-operation), erroneously preserves and secures to the private banks the monopoly of the domestic discount market. Why, for instance, the Reserve Banks should be allowed and encouraged to buy long-time foreign bills of exchange in the open market without the indorsement of a local bank and be prevented from discounting or acquiring domestic bills except from member banks and with such indorsement, it is difficult to understand. It is distinctly detrimental to domestic business. The result will be to enable foreign merchants to borrow more cheaply in our markets than our own merchants, and in that way cripple the efficiency of our own citizens in the markets of the world where we meet these foreign merchants in competition. If they can borrow on better terms than our home merchants because the Reserve Banks are authorized to compete for their six months' bills directly in the open market, while the home merchant can discount and sell short-time bills only through and with the indorsement of his bank, the foreigner will get cheaper money.

It is likewise puzzling to comprehend how the operations of the Reserve Banks are to keep down the rate of discount unless they are permitted to fix a bank-rate at which they will purchase or discount commercial paper in the open market. If they can only acquire such paper through their member banks there is no check whatever upon the rates of interest that may be charged by the local institutions.

If, however, I am wrong in assuming that the banks cannot afford to surrender their charters, and if it transpires that such surrenders will be made in exchange for State charters, why should not the shares of stock of these Reserve Banks be offered to and held by the public as in European countries?

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The Bank of England has 145,530 shares scattered among 11,986 individual shareholders, or an average holding of less than 12¼ shares each. Each owner of 500 shares or over has but one vote regardless of the amount held.

The Bank of France has 182,500 shares held by 32,867 holders, averaging 5½ shares for each holder; 11,592 holders have one share each; 6,889 have two shares each; 1,742 have 10 to 20 shares each; 1,088 have 21 to 50 shares each; 246 have 51 to 100 shares each. Only 108 holders have 100 shares or over.

The Reichsbank has a capital of 100,000 shares. There are two classes of stock, 40,000 shares of 3,000 marks ($750) each, and 60,000 shares of 1,000 marks ($250) each. On January 1, 1912, there were 18,757 holders, with an average of 5 1-3 shares each; 16,537 domestic owners held 29,810 shares of the first class and 58,540 shares of the second class.

The voting power in all cases is so arranged as to prevent large interests from acquiring control by limiting it to small holdings and disfranchising excess holdings in any one hand.

There can be no doubt of the great attractiveness to the general public of the shares of these Reserve Banks, even if the dividends be limited—as they should be—to 5 per cent. or 6 per cent., with no contingent interest above that. The Reserve Banks should be operated as a public convenience, and not primarily for profit. If they are to be co-operative and not competitive there should be no inducement to selfishness or rivalry between the managements of the various institutions. It must always be remembered that they are to be controlled by the member banks. The temptation for profit-making must be removed. Besides, the Government not only contributes the use of its vast funds, but gives its credit as well, in the form of treasury notes, and ought in justice to have everything that may remain in the way of profits after practically assuring 5 per cent. or, if need be, 6 per cent. on the investment.

So far as concerns the success of the Reserve Banks, without the co-operation of the banks, and as purely Government institutions with their shares publicly owned and appealing generally for deposits and lending in competition with the other banks, no large borrower could afford not to have an account with the Reserve Bank. The non-interest bearing accounts it would thus secure, together with its

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capital and Government deposits and the ability to obtain currency on the rediscount of its commercial paper, would permit of a comprehensive plan without regard to the membership or assistance of the banks.

The $105,000,000 of capital that the banks contribute, and on which they get a very substantial return, is trifling as compared with the magnitude of the operation. The public would doubtless jump at the opportunity for such an investment in a Government-controlled institution, while the private deposits, together with the bank reserves and Government funds, would make a far more powerful and a vastly more useful institution than the scheme suggested by this Bill. It would operate as a hardship upon the banks and ought for that reason not to be resorted to if the present plan can be made operative. But if that is to be the alternative to permitting these gentlemen to write a Bill that is not regarded by Congress as the most wise or just solution of the problem, there need be no apprehension as to the outcome.

I do not believe we shall ever be confronted with any such alternative. There is far too much of advantage in the pending proposition for these eminently practical and resourceful gentlemen to surrender. The Bill may be said to be now in the stage of negotiation. Judged by their proposals to the Senate Committee, the bankers evidently so regard it, and Congress seems disposed to accept that view. I insist that it should not be dealt with on any such assumption, but should be treated like pending legislation on any other subject which Congress has the undoubted right to enact and enforce, if in the public interest, without regard to the wishes of the banks.

We have heard so much during this discussion about the necessity of harkening to the advice of these interested experts in the framing of the law that is to govern them that one would almost imagine that there is something occult or mysterious about this business of banking, upon which the lawmaking layman must not lay his ignorant, impious hands, lest by intruding upon the sacred precincts he mar the sensitive structure.

The fact is that, while finance is a science of which there are unfortunately few students in this country and which is little understood here, any good merchant knows, or should know, as much as our bankers about banking as it is practised here. The merchant extends credits for merchandise

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in the same way that the banker deals in money credits, with the difference that the credits of the great merchants are wide-spread and diversified, extending all over the country and perhaps over the world, while the bank credits are mainly local. The merchant also borrows as well as lends. There is too much confusion of thought between finance and banking in the discussion of this question. The framers of the Bill seem to have been unduly impressed, for we find here and there provisions such as that requiring that the Chairmen of the Reserve Banks shall be men of "tested banking experience"—whatever that may mean. There are many great merchants whose financing operations are far greater in volume and more diversified than the banks with which they deal. Are they to be ineligible as chairmen of these boards?

Many of the most prominent men now in the banking world of America have gone to the heads of leading banks and trust companies of the country directly from the employ of railroads, from law offices, Government service, and elsewhere with no previous banking connection or experience, and have conducted them with marked success.

Again, most of our leading private bankers here and abroad have drifted imperceptibly from merchandizing into banking. Such firms as Rothschilds and Barings are mainly and primarily merchants. Rothschilds are to-day among the largest of the world's merchants in the purchase and sale of copper, rubber, coffee, and oil. It was by reason of their position as merchant traders that they began loaning on the products they were handling for their customers and thus became bankers as an incident of their business as merchants. In New York City there are numerous men at the heads of leading banks and trust companies and important partners in the greatest private banking firms of the country who went there directly from the practice of the law without any previous business experience whatever, and some who have taken their places at the heads of these institutions without any sort of previous experience either in the business or professional world and have successfully filled the positions.

A banker, on the other hand, could hardly go from his desk into the practice of the law or medicine or architecture or take charge of a factory. These activities require special knowledge. There is no legerdemain about the banking business.

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These observations are not intended to belittle the importance of this useful, honorable, and dignified calling in which many of our best and most patriotic citizens are engaged. They are intended only to remind one another that we must not rely entirely on the wisdom of the interests that are to be regulated.

To return now to the discussion of the merits of the Bill under consideration, the objections that have been urged by the bankers and others and the counter-proposals that are advanced: I am an unqualified champion of the fundamental principles involved in the Bill in its present form, although there are many minor and a few important particulars in which it may be improved. It will hardly be contended that in its present form the Bill is a perfect or comprehensive measure. It does not purport to be. It must eventually be supplemented by a revision of our obsolete National Banking Law, that has not been revised for sixty years, before the Bill can be considered a comprehensive body of modern law applicable to present-day conditions in the banking and financial world. All this may safely follow later as part of the system that is now being created. So, too, the minor defects will doubtless be remedied as the discussion proceeds, for the men who have led in framing the Bill are dominated by the earnest, unselfish, and single-minded purpose of presenting the best possible results—unhampered by pride of opinion.

The fundamental principles involved may be summarized as follows:

1. A Currency issued by the Government and under absolute Government control.

2. The decentralization of the vast banking reserves of the country that have been attracted under the present law to New York as the only place where they can be utilized and at the same time kept liquid. There they have come into the hands of a small coterie of men through their domination over a dozen or less great banks in that city where they have been used to control the credits in great commercial and financial transactions and to promote stock speculation. This Bill will go far toward assuring to the country the great boon of retaining these reserves in the regions where they belong and of utilizing them in the legitimate channels of commerce of those sections.

3. The establishment and development in the course of

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time of an open market for the discount of bills of exchange and acceptances based on genuine commercial transactions, thus rendering credits liquid with us as in other countries. In that way "call loans" on Stock Exchange securities will cease to be the only recourse of the banks for their idle money. The Bill will be the first chapter in a body of laws as the result of which the "loan stand" of the New York Stock Exchange will lose its unique distinction as the only open money market of the United States, and in its place we shall have a recognized and stable market for sound credits that cannot be monopolized or put at the mercy of a few men and that will go far toward stimulating healthful independent enterprise.

4. The employment of the credits of the banks through the power to accept merchants' bills and drafts, thus materially supplementing the resources of the banks without involving the use of additional money.

5. The development of a market for foreign bills of exchange that will release us from our present anomalous and absurd position of having to pay tribute to foreign countries on all our vast transactions with those countries.

These are a few of the more important results that can be worked out under this Bill that have led me to urge its passage at this time and without awaiting a revision of the Banking Law and without now attempting to engraft upon it any of the many important recommendations of the Report of the so-called "Pujo Committee," although these recommendations in my judgment will be necessary in connection with this Bill in order to correct the dangerous and growing concentration of the control of credits in a few hands and to relax the grip of the "Credit Trust" upon the industries of the country.

Let us first build the foundation of our new financial structure. This law furnishes at least an outline of the machinery for that purpose. The completion and embellishment of the edifice will take time and require discussion. Many questions, such as the adoption of the well-nigh universal European policy of prohibiting interlocking directorates, but that are not essential to be considered at this stage of the work, must then be settled.

It should accordingly be understood that whatever suggestions may be made in this discussion with respect to changes in the Bill are those of a friendly critic and cham-

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pion, and are offered solely with the view of bringing about in the most effective way the accomplishment of the above-stated purposes.

If we are now ready to begin the task of shaking off the grip of the small coterie of men who hold in the hollow of their hands the control of the credits of the country affecting great financial and industrial projects; if we want to take the reserves of the country away from Wall Street, where they have been used to "rig" the stock markets; if we want to require them to be utilized in the legitimate channels of commerce; if we want to contract unhealthy speculation and at the same time expand and stimulate legitimate business, this Bill marks an important step in that direction.

The main advantages to *the banks* of the new law as against the existing system may be summarized as follows:

1. The reserves required to be kept by the banks against their demand liabilities average about 20 per cent. less than under the existing law, thus expanding their loaning power and consequent opportunity for profit to that extent.

2. The utilization of that part of the reserves that is required to be deposited with the Reserve Banks for the proportionate benefit of the depositing banks in the forms of rediscounts and of dividends on their share-holdings in the Reserve Banks.

3. The right of the banks under Section 15 to lend their credit in the form of acceptances to the extent of one-half of their capital in transactions involving the importation and exportation of goods. This form of transaction involves no expenditure or investment of capital and is almost equivalent to additional capital.

4. The enormously valuable privilege of rediscounting their commercial paper with the Reserve Banks and of receiving currency therefor.

The extent to which such rediscounts may be made for any one bank appears to be unlimited except as to the maturities of the paper and as to acceptances based on foreign transactions. Presumably not less than 75 per cent. of a bank's paper has an average maturity of less than 90 days, so that it is ultra-conservative to assume that under this provision a bank that deals strictly in legitimate commercial paper may increase its lending power on this account alone by at least 40 per cent. and its profits accordingly, less the interest it will have to pay to the Reserve Bank, which

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would at all times be considerably lower than that which it would charge its customer.

5. The comfort and security with which the banks can conduct their business regardless of temporary money stringency and other disturbances, as the result of this "pooling" of the bulk of their required reserves in the hands of the Reserve Bank for equalization and distribution among the members as occasion demands. An equitable use of this fund will result in giving back to each member that needs it the use of two-thirds of the reserve thus required to be deposited.

If to these advantages there be added, as there should be, the right to the banks to lend their credit to *domestic* transactions in the form of acceptances, and the power to the Reserve Banks to discount *such* acceptances and to procure currency on the rediscount thereof, it will be difficult to estimate the extent to which the earning power of the banks will be thereby increased.

As against the assurance of this stability and vastly increased earning power the banks have been able to suggest two possible drawbacks as affecting their profits:

1. That they are required to subscribe 20 per cent. and now invest 10 per cent. of their capital in the shares of the Reserve Bank on which they have a first charge of 5 per cent. annual dividend, and (2) that whereas they now get about 2 per cent. interest on their deposited reserves they will get none from the Reserve Bank.

These considerations seem so trifling as compared with the pecuniary advantages to the banks as to cast doubt on the seriousness of their entire contention. Even if they are limited to a return of 5 per cent. dividend on their stock investment that can hardly be considered a hardship and will not arouse keen sympathy, when we reflect that besides this return on their investment they will get back the use of this capital as well as of two-thirds of their deposited reserves in the form of rediscounts. Under the present law these reserves are of no use to them or their depositors or their community. They go to New York and are there loaned on the Stock Exchange because there is no bill or discount market and no other way of directing them back into the current of legitimate business.

The opposition of the great New York banks to this Bill is

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readily comprehensible. From the point of view of self-interest they are right in opposing it.

It appears from the testimony and exhibits attached to the report of the Pujo Committee that of the 25,000 or thereabouts of National and State Banks and Trust Companies in the United States, 19,015 had on November 1, 1912, accounts with the thirty leading banks and Trust Companies in New York City.

Ten of these institutions held 15,483 of these accounts, as follows:

Banks	Number of Out-of-town Bank Depositors
Bankers Trust Company	237
National Bank of Commerce	1,671
Chase National Bank	3,103
First National Bank	579
Guaranty Trust Company	182
Hanover National Bank	4,074
Liberty National Bank	312
Mechanics & Metals National Bank	1,010
National City Bank	1,889
National Park Bank	2,426
	15,483

It is probable that in this total there are duplications, as some of the larger out-of-town banks have each more than one correspondent in New York. There was no means of determining the extent of these duplications, as the banks refused to disclose the names of their correspondents, but the number is believed to be comparatively negligible, not exceeding five hundred at most.

These ten institutions have close and recognized Morgan-Baker-Stilman affiliations. Most of them are controlled or dominated by these interests through stockholdings, voting trusts, interlocking directorates and in other ways. There are 39 National banks, 42 State banks (exclusive of Savings-banks) and 28 Trust Companies in New York County alone, some of which are under like domination, but it was found impracticable within the limited time to secure the data from the remaining 79 institutions.

It is estimated that about 22,000 out of the 25,000 banking institutions of the country have accounts with New York City banks and keep at least part of their reserves there.

On November 1, 1912, the 30 New York institutions above referred to had on deposit belonging to their out-of-town correspondent banks $483,373,000, and in addition they had on that day loans outstanding which they had

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made for these correspondent banks on Stock Exchange collateral aggregating $240,480,000, making a total on that day of $723,853,000. On the same day these New York banks had in addition like loans of their own funds outstanding on Stock Exchange collateral amounting to the aggregate of $526,315,000, which doubtless included funds that they held on deposit for their correspondent banks.

Of the above totals the ten so-called Morgan-Baker-Stillman institutions had on that day deposits belonging to their out-of-town correspondent banks of $338,190,000; loans of their own outstanding on Stock Exchange collateral $371,822,000 and for their correspondent banks $172,193,000 in addition to the moneys belonging to these banks that were on deposit with them. There is no available record of the amounts held on that day by other New York institutions under like control.

It requires no extended argument to demonstrate that through these deposits and the handling of this money of their correspondent banks these institutions wield a powerful control over Stock Exchange speculation and over the finances of the country.

Much of this power will be lost to them when this Bill goes fully into effect, which will not, however, occur until after thirty-six months. Here, again, the Banking Committee has erred on the side of over-abundant caution. Half the time would be ample for the purpose. The serious feature of this unreasoning timidity lies in the fact that the new system will not get a fair chance. Without these reserves it will be less powerful than several of the separate member banks, and the whole venture is in danger of being prematurely condemned. We are placing in the hands of those who may find the new system against their interest the power to discredit and cripple it. No such time is needed to make the transfers without disturbance. When the time finally comes the reserves will go into the Reserve Bank and will be loaned by it to its members for legitimate business purposes. The moneys that the country banks have been sending to Wall Street at times when they could not be utilized at home and frequently in times of semi-panic because of the attractive rates that Wall Street was bidding, will be available to buy commercial bills and acceptances, as is the custom all over Europe, when they have been made liquid here as they are there.

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No more significant illustration could be offered of the conditions under which the money of the banks of the country is attracted to New York City for the purpose of stock speculation, and just when it is most needed in the sections where it belongs than the following table, showing the loans on Stock Exchange collateral that the above mentioned New York banks had outstanding on behalf of their correspondent banks on January 1st, July 1st, and November 1st, from 1908 to 1912:

	No. of Banks	January 1st	No. of Banks	July 1st	No. of Banks	November 1st
1908....	29	$106,621,000	29	$ 89,248,000	30	$ 85,011,000
1909....	30	103,524,000	30	121,648,000	30	165,557,000
1910....	31	208,260,000	31	160,185,000	31	125,201,000
1911....	31	143,876,000	32	128,804,000	32	142,820,000
1912....	32	140,901,000	31	141,028,000	32	240,480,000

It will be recalled that November 1, 1912, was the height of the recent panic when money was scarce and high all over the country. *On that day* the loans made by these banks for their out-of-town correspondents *were about double* the average amount outstanding on the same day of the preceding three years.

It may be that the gentlemen who oppose this Bill are really voicing the sentiment of the small banks of the country, but the more one analyzes the stated grounds of objection the more difficult it becomes to understand the basis of opposition. The independence of the country banks will be so largely promoted and their loanable resources so vastly augmented by this Bill that it is well-nigh incredible that they should hesitate.

The claim of Mr. Forgan that the Bill will result in a vast contraction of the loanable funds of the country is so effectively punctured by the figures presented by Senator Owen that further discussion is unnecessary. The real source of danger is rather from the reckless inflation that may follow a too liberal definition of what constitutes commercial paper, as will be hereafter shown.

Taking up now *seriatim* the remaining objections urged by the bankers and their proposals for changes, we find them still insistent upon a single Central Bank and, failing that, they urge a reduction from twelve to five in the number of the Reserve Banks. They no longer contend as under the Aldrich Bill, for private banking control of the Central body, but demand minority representation in the Federal Board,

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although the Bill generously accords them control of all the Reserve Banks.

Let us analyze the justice and wisdom of these demands. A Central Bank is of course out of the question, not merely because the dominant party is by its platform definitely committed to the people of the country against it, but because it is impracticable and unsound. It has been truly said that it would be like having one Central Bank for all of Europe. The area is as large and the conditions in the different sections of the country are quite as varying. Discount rates adapted to the various sections would be impossible and contact between the members and the bank could be had only through local agents at the branches. There could be no first-hand knowledge of the character of the paper to be rediscounted. The structure would be bound to become top-heavy and unworkable. The discussion on that point has become so purely academic that it is not worth while pursuing.

Whether there shall be twelve regional banks or only four or five such banks is a serious and debatable question. The arguments in favor of a less number are powerfully arrayed in Mr. Warburg's paper printed in this issue. His conclusions are unassailable if his premises are correct that under the proposed system the reserves cannot be effectively mobilized, that a wide discount market for bills cannot be developed and that as a result the call-loan market will continue to be the stand-by of the banks.

I see no reason for assuming or agreeing to the soundness of any of these contentions. The various Reserve Banks are ingeniously " pipe-lined " under the supervision of the Federal Board, which thus secures the power to mobilize their reserves in anticipation of emergencies. That is a necessary power, and should be encouraged instead of being opposed by the banks. It makes for stability. It secures combined effort, which has always been urged as the great virtue of the Aldrich plan, and at the same time avoids the dangers of permanent centralization. Under normal conditions they operate independently and responsive to local requirements. In times of stress they are drawn together for united and co-operative action under impartial direction.

It is strenuously insisted in this connection that the delegation to the Federal Board of the power to require one Reserve Bank to rediscount or lend its credit to another is despotic and unjust, although it has always been admitted

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and urged that such a mobilization of resources may become necessary for the general welfare. It is said that this power in the Federal Board places the funds of the Reserve Bank beyond the control of its shareholders and managers and of those to whom the deposits belong. The fact has been overlooked that as the bill now reads no action can be taken in this direction without unanimous consent of the Federal Board, which I consider wrong, as not being sufficiently elastic. The same result now complained of could probably be accomplished by concentrating all the Government funds in a Reserve Bank that needs help at a given time. In directing such transfers the Government would be dealing with its own money so that no complaint could be made of the Government extending help in that way. Again, to what extent would the exercise of this power place the reserves of the country banks further beyond their control than they are at present? They are now deposited in reserve city banks which lend them as and when they please, while under the proposed regulations they can be loaned only to member banks except by unanimous consent of the Government Board. Without that provision it would rest with the banks in control of a Reserve Bank to use the funds of the Government in the form of deposits and its credit in the form of notes and at the same time refuse the co-operation that is now admittedly essential to the working of the system. So long as it is insisted, and rightly, that the power to mobilize the reserves is essential to the success of the plan, there should be no captious objection to carrying out the scheme. The requirement for unanimous consent is quite as perilous to the banks as to the Government and the country. There seems nothing very despotic or unjust about this necessary measure of protection in the interest of those who are declaiming against it.

Answering now the argument that a wide discount market cannot be developed unless the number of Reserve Banks is diminished and their power correspondingly increased, one would imagine that the character and extent of the discount market would depend on the combined resources of the entire system that are available for the purchase or rediscount of foreign and domestic bills and acceptances and the corresponding demand, regardless of the number of units of which the system consists.

The importance of the development of such a market

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cannot be over-estimated. It lies at the foundation of the entire Currency problem. The subject is little understood in this country. The Bill does not sufficiently define commercial paper or protect the character of the paper against which currency may be issued to accomplish the desired purpose, except to "sidestep" the difficult problems involved by relegating the whole subject to the Federal Board. That will never do. The question is fundamental.

I do not believe it will in any event be possible to develop this market for bills and acceptances unless the Reserve Banks are plainly permitted and encouraged to buy bills in the open market in competition with the banks, as before stated. The attributes of such paper will be discussed later.

Mr. Warburg has failed in his ingenious and highly instructive discussion to prove that the plan of four or five Reserve Banks will facilitate a discount market as against twelve such banks. If he can make good that claim he will have presented the strongest possible argument in support of his contention for a lesser number of Reserve Banks.

The bankers are inconsistent in arguing that with twelve banks each would be too weak and at the same time protesting against requiring the payment of a 10-per-cent. stock subscription to strengthen them and insisting that only 5 per cent. should now be exacted.

The advantages urged in favor of the larger number of Reserve Banks are:

1. That there should be separate bodies qualified to fix the discount rates in the various sections of the country, and that five subdivisions do not represent the varying conditions to be met.

2. The Directors should have intimate knowledge of the local and sectional conditions and of the needs and responsibility of borrowers and the requirements for currency. If there were only four or five such banks the Board would be forced to rely largely on the judgment of local agents instead of coming into personal contact with the members. If all the National and State banks join the system as it is believed they will eventually be compelled to do in self-preservation, there would be an average of 2,000 member banks in each of the twelve Reserve Banks, which is about as much real supervision as any Board can intelligently undertake without delegating the important work to agency management, which would be highly inadvisable.

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3. A larger number of Reserve Banks with their separate Boards of Directors will assure the independence of the Banking business and safeguard the system against control by the powerful financial interests.

If the Bill prevails in its present form so as to compel co-operation, as it should, there are no appreciable advantages and many objections to reducing the number of Reserve Banks. If there were intermediate local organizations in the form of incorporated Clearing House Associations under Government supervision through which the paper offered for rediscount could be filtered and the claims of the member banks to accommodations determined preliminary to the application to the Reserve Bank there would be greater force in the contention. In the absence of this intermediate machinery sound supervision of loans by the Board would be impossible with less units.

The banks complain of the constitution of the Boards of the Reserve Banks and of the Federal Board and demand three principal changes in that respect:

(*a*) That they have representation on the Federal Reserve Board that is to supervise the Reserve Banks;

(*b*) That as to the six Directors who, with three members to be named by the Federal Board, will constitute the Board of each Reserve Bank, *all of whom are to be elected by the member banks* in Classes A and B of three members each, the power now given the Federal Board to remove the three Directors of Class B shall be stricken out; and

(*c*) That the nominee of the Government on the Board of the Reserve Bank should not be made Chairman.

There are others who on the other hand contend that the banks are already given too complete control of the Reserve Banks and that the provision for an Advisory Council should be eliminated.

Here, again, the Bill is over-generous in the representation given the member banks, irrespective of the recent concession of the official recognition of an Advisory Council to the Federal Board. The latter should not be permitted. There is no objection to the banks constituting such a body, or as many as they choose, for co-operation. But why should they be given a legislative status? We are told that the Council has no power, in which event it ought not be given a semblance of authority that may be asserted as the

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basis for attempting to interfere with and protest what should be the supreme and untrameled power of the Government to supervise the system. This is a meaningless compromise. If the banks are entitled to representation on the Federal Board it should be accorded them. If not, this makeshift should be abandoned. It will prove a mischievous entering-wedge on which to base a demand for further power amounting to representation in the Federal Board when the auspicious moment arrives.

The member banks are already largely and more liberally represented under this Bill, taken as a whole, than in any other known system. Neither in England, Germany, nor France is there any bank representation. In Germany there is an Advisory Council selected by the shareholders, but *that is their sole participation in the management.* They have no voice in the rediscounting or other duties of the bank. All the Directors and every manager of the 467 branches and sub-branches is a Government official responsible to the Government alone.

There are no intermediate organizations in any of those countries corresponding to the proposed Reserve Banks so as to permit of bank control or even representation. The Government Banks deal directly with the member banks and with the general public, and the banks, who are depositors and shareholders, have no say whatever.

As before stated, the Central Banks accept deposits from every one and discount for all their customers, banks, industrial companies, firms, and individuals, and compete with all of them in every direction. Note how much more liberal to the banks is the proposed plan. They are given control of the banks that carry not only their reserves but the Government funds as well that will amount to almost as much as their reserves. The banks are preferred and practically assured a return of 5 per cent. on their investment. The funds are available primarily to them in the form of rediscounts, and when those resources of the Reserve Banks are exhausted the Government lends its credit in the form of notes to enable them to supplement their own resources for their own profit. There is good ground for criticism that the House Banking Committee has yielded too much.

It is imperative that the power to remove the three Directors of Class B shall not be surrendered. The Government has only one of the nine Directors. The Chairman

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has no greater voting power than any other Director. The banks select the others. The Government reserves only a veto power as to three of them. Its funds are in the care of this Board. They will pass on the character of the commercial paper that the Reserve Bank will ask the Government to rediscount and for which its notes are to be issued. The Government will have no machinery for reviewing the judgment of the Reserve Bank in the performance of that important task. It must rely on the men who have been selected by the banks that are seeking the accommodation. Surely the Government could not under these circumstances ask less than that of the six members selected by the bankers, three shall be satisfactory to it, and that when the Government is not satisfied the *banks* will select others in their stead.

There are a number of minor features of the Bill that are open to criticism, among others such as

(*a*) That allowing the notes to be redeemed in "lawful money" as well as gold. They should be redeemable specifically and only in gold, and Section 16 should be amended to require the reserves against the notes to be in gold coin.

(*b*) The omission of the delegation of the important power to the Federal Board to issue notes with which to buy gold. Power is given the Reserve Banks to buy gold, *but no authority is given to issue notes for the purpose so as to keep the gold reserve intact.* This defect was pointed out to me a few weeks ago by a leading official of one of the Continental Government banks who had closely studied the proposed legislation.

The Government has two simple expedients at hand for the substantial increase of its gold reserves. The first has been pointed out by Senator Owen in the Bill introduced by him for the retirement of the outstanding gold certificates as they are paid into the Treasury for customs duties and other taxes and the issue of treasury notes in their place, thus eventually releasing over one billion dollars of gold which the Treasury holds now merely as warehouseman and to which it has no title.

The second expedient is to issue a large amount, say $200,000,000, in the course of a few years of additional fractional currency and buy gold with the proceeds. That is what Germany has done. It has about 1,600,000,000 marks

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($400,000,000) authorized fractional currency of which about 1,300,000,000 marks ($325,000,000) is now outstanding. France has still more. We have an insufficient supply of pocket money for the needs of our people. It is the safest form of note issue. It is never presented for redemption.

(*c*) The failure to provide a common point for the deposit of all required gold reserves so that the obligation for the redemption in gold and on demand of the Treasury notes that are to be issued can be made good. It will otherwise be regarded as an empty form. This suggestion came also from one of the heads of a great Continental bank.

While the Government itself undertakes to redeem these notes in gold it is in effect a mere guarantor as between itself and the Reserve Bank. It will not have the gold and will have to look to its principal debtor, the Reserve Bank, to make good its undertaking. Why should it not put itself in position to make good by providing that all the gold reserves of the Reserve Banks be kept at Washington credited to each Bank, and that as notes are presented they be paid out of the gold belonging to the particular Bank by which they were issued? That will be an assurance to the world that the Government has the means of redeeming its promise.

(*d*) The provisions for bank examinations should be supplemented by legislation expressly prohibiting any voluntary Clearing House or other association of banks from requiring or enforcing the examination of any bank except through the agency of the Comptroller, and that the names of borrowers and the collateral for such loans of a bank be not disclosed to its competitors. The legislation on this subject recommended by the Pujo Committee is peculiarly germane to Section 23 of the Bill in order to put an end to the despotic power of the great banks that dominate the Clearing House Associations in the larger cities over the smaller members and to correct the character of abuses that are disclosed in the Report.

In conclusion I desire to discuss at greater length what seems to me the most important particular in which the Bill should now be perfected. I refer to a proper definition and careful restriction of the character of the commercial paper for which Treasury notes may be issued. That does not necessarily mean that the Reserve Banks should not be permitted to rediscount paper that does not come within

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this definition. It means only that they cannot get currency on any paper other than that embraced within the definition. In its present form the Reserve Banks can rediscount only such paper as may constitute the basis of currency issue, but the Bill should be amended in this respect by giving wider discretion to the Reserve Banks but limiting the paper that the Federal Board may accept to legitimate commercial paper.

Commercial paper is that which represents an actual transaction in the consummated purchase and sale of merchandise intended for re-sale and consumption. It must answer the test of being an obligation that automatically discharges itself in the ordinary course of business. If A sells and ships to B cotton, grain, or merchandise that is intended for re-sale, and draws on B at ninety days for the value of the shipment, and B accepts this draft either in his own name or procures a bank or banker to accept for him, that acceptance is legitimate commercial paper. The goods represented by the draft will presumably go into general consumption and the draft be paid out of the proceeds, thus providing the funds for canceling the currency that was issued against it.

If, however, A is a wool manufacturer and makes his note for the purpose of buying a motor-car or a pearl necklace for his wife or of enlarging his factory or even to buy wool to make up into goods to put on his shelves, but which he has not yet sold, or to buy bonds or stocks, or to use as additional working capital, and his bank discounts that note and gives him the money, that note does not in any of the contingencies mentioned represent a legitimate commercial transaction and should not be eligible to rediscount by the Reserve Bank so as to form the basis of a Currency issue except, possibly, to a very limited extent and on an entirely different basis.

The distinction is fundamental. In the first case experience has taught that the purchaser who accepts the draft will in the ordinary course have disposed of the goods and will be able with the proceeds to meet the obligation at maturity. If, therefore, currency has been issued on the rediscount of that acceptance, it will be automatically retired by its payment at maturity and there will be no resulting inflation.

In the other case in which the creation of the obligation

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does not arise out of a purchase and sale of goods there is no known source from which the funds are to come with which to meet the obligation at maturity. The goods may still be on the merchant's shelves; if the money has gone into improvements it may take years for the profits from those improvements to liquidate the debt, if they ever do. The result is that when the note comes due it will be paid by the issue of another, which in turn must be rediscounted and currency issued for it with which to replace that previously issued and retired. In course of time the issuing power will be clogged and eventually destroyed.

The latter class of transactions will necessarily result in dangerous inflation if they are permitted to form the basis of currency issues. For that reason the European form of obligation of bill and acceptance is better adapted to the plan of an asset currency than in our form of a promissory note. The latter is unknown elsewhere. Acceptances are mainly of two kinds—by the purchaser of goods or by a bank or private banker with whom the purchaser has negotiated for a commission for a line of credit in the form of such acceptances because the responsibility of the bank or banker is recognized and the acceptance will pass current and be eligible for rediscount as so much cash. Bank acceptances are not as well received and do not sell at as low a rate of discount in Germany as merchants' acceptances on domestic transactions, but in dealing with foreign transactions bank or bankers' acceptances are ordinarily necessary, as purchasers do not care for an obligation that cannot be enforced in their own country. When the acceptance is that of the merchant the character of the transaction is readily understood by every one through whose hands the document passes, and there is little difficulty in determining whether it represents an actual transaction in the purchase and sale of goods. When it is a banking acceptance it is more difficult to distinguish. It may represent a general credit available to improvements in the business or working capital or what not. But the foreign "acceptance houses," as they are called, and their methods are so well known and the purchasers of these bills have become so expert in discriminating between genuine commercial bills and the counterfeit article that there is not much confusion on the subject.

With us it will have to be a process of slow growth and education. It is not necessary that the asset currency shall be

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rigidly confined at the outset to this limited class of commercial paper. There will not be sufficient of such paper at the beginning to employ the resources of the Reserve Banks. Our banks and merchants must first be taught to substitute bills and acceptances for promissory notes and to insist upon their customers reducing their open accounts to a more liquid form of security. The merchant who now sells goods on open account on sixty days' time and carries these accounts on his books and borrows against this book-showing on his own note at his bank, must inaugurate the foreign custom of drawing upon his customer at sixty days for the amount of the sale and of taking from the purchaser his acceptance, which constitutes commercial paper and will be eligible to discount and rediscount and as a basis for currency issue. In that way the seller secures an immediate market for the paper representing his sales and thus releases the capital which under our business customs is tied up in immovable book accounts.

The American banker now rightly regards only his call loans on Stock Exchange security as liquid and available for emergencies. His unmatured commercial paper he considers unrealizable until maturity. The European banker invests his idle funds in short-time paper. He regards his "portfolio" (as his collection of this paper is called) as his most liquid asset because he knows that if it is genuine commercial paper he can convert it into money either in the open market or at the Central Bank at a moment's notice. But the introduction of this radical change in our business methods must necessarily be gradual and will depend on the care with which we hedge around the issue of our asset currency.

There is, however, no reason why a given proportion of the funds of the Reserve Banks should not be available for the discount of bills based on certain classes of staple merchandise in responsible warehouses and that has not yet been sold. During the caucus discussion of this Bill a great hue and cry was raised at the suggestion that the issue of currency on obligations secured by warehouse receipts for cotton and grain should be permitted in the discretion of the Federal Board. The proposal was denounced as demagogic and revolutionary. Yet that is precisely what is done in Russia, France, and Germany. The Bank of Russia issues currency against grain. The Bank of France now makes note issues

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against unsold merchandise in warehouse. The Reichsbank has the same right and does so in practice to a prescribed limited extent, although it does not permit the issue of notes secured by Government bonds or other bonds or stocks.

A currency issue to the extent of say 60 per cent. of the average market price of such a staple as cotton or grain in warehouse as collateral to the owner's obligation is an incomparably superior and more legitimate security than an issue secured by the note of a merchant given for permanent improvements or working capital, which is the basis of so large a part of our so-called "commercial paper." The former is liquid and realizable and should be permitted to a given extent. The latter is illegitimate and indefensible as a basis for currency issue to any extent.

Yet this Bill would permit the latter and discourage the former. Section 14, for instance, allows the rediscount of notes and bills "the *proceeds* of which have been used *or may be used*" for agricultural, industrial, or commercial purposes. Who can possibly say how "the proceeds *may be* used?" There is peril lurking in this loose language. It would allow the rediscount of notes given to build a factory or buy a farm.

It is impossible to treat this vast subject within the limits here prescribed. Suffice it to say at this time that the sections dealing with this important phase will have to be amplified before the Bill will be workable. In its present form it invites disaster, but it is largely a question of phraseology to put it right in this respect.

There are still other aspects of the Bill that should be discussed if space permitted, but they do not involve fundamental questions. The framers of this Bill are to be congratulated on the skill and justice with which, on the whole, they have dealt with a highly technical subject out of which a perfected plan can only be evolved by generous discussion and as the result of an educational campaign. The underlying principles are sound, and it is to be hoped that the beginning will now be made. We have talked and agitated for twenty years and done nothing. Now that we are at last on the right road let us use the tools we have and act promptly. The experts disagree, as they always will. It is only by actual operation that we can uncover the defects.

SAMUEL UNTERMYER.

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THE OWEN-GLASS BILL AS SUBMITTED TO THE DEMOCRATIC CAUCUS

SOME CRITICISMS AND SUGGESTIONS

BY PAUL M. WARBURG

Now that we have before us the Owen-Glass Bill in the definite form in which it has been submitted to the Democratic caucus, it may be interesting dispassionately to analyze it and to establish where it differs from and wherein it agrees in the main points with the bill of the Monetary Commission.

It is a source of great satisfaction to note that, as the Republican party had to outgrow and to abandon its old doctrine of "currency issued by National Banks against Government bonds," so the Democratic party had to relinquish its old heresies of the 16-to-1 silver standard, the guarantee of deposits, etc. Both parties are now agreed that reform must provide for "a currency"—to use President Wilson's own words—"not rigid as now, but readily, elastically, responsive to sound credit, the expanding and contracting credits of every-day transactions, and the normal ebb and flow of personal and corporate dealings."

There is a further and even more important progress. Both parties have now recognized that it is not the "currency" which is the exclusive or even the chief factor that needs reform, but that, indissolubly interwoven with this question is the problem of rendering available and efficient the now immobilized reserves of the country, and of mobilizing and modernizing the now illiquid American bills of exchange by creating a "discount market" and "bank acceptances."

Both parties are thus in agreement as to the ends to be striven for; more than that, they are agreed even as to the technical means by which they must be attained.

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Accordingly, both plans provide for concentration of reserves, for the creation of an organization for the purpose of rediscounting commercial bills, for the substitution of an elastic note for the present National Bank currency, and for a conversion of the 2-per-cent. Government bonds into 3-per-cent. bonds.

The country is to be congratulated upon seeing these theories and principles clearly established; it remains the nation's duty conscientiously to watch that the aims now professed by both parties be carried into effect in the best possible way, and that they be not lost through ignorance, prejudice, or considerations of party policy. Where there is agreement as to the fundamentals, it should not be impossible to reach an accord as to the means, provided they be honestly sought for.

There were five main criticisms of the Monetary Commission's plan, and it is chiefly on these points that the Owen-Glass plan differs from its predecessor.

Mr. Aldrich's critics claim:

1. That there is too much concentration of power and that this power is placed almost entirely in the hands of the banks or their representatives.

2. That a uniform discount rate for the whole country would not be practicable.

3. That the size of the balances to be kept by the subscribing banks with the National Reserve Association is not defined.

4. That the National Reserve Association, after taking over all the 2-per-cent. Government bonds, is not sufficiently protected, because, although it would assume the responsibility for the entire National Bank note issue, it would be prevented from selling the United States 3-per-cent. bonds in case of emergency (except $50,000,000 per annum and that only after five years).

5. Finally, it is claimed that currency should be issued only by the Government of the United States and not by a semi-official body.[1]

As to point 1, the writer partly agrees with these critics; as to 2, 3, and 4, he entirely agrees; as to point 5, however, he totally disagrees with them.

[1] This article does not aspire to be a comprehensive criticism of the Owen-Glass bill in all its details, but has for its purpose the discussion only of these main points.

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Let us analyze each point consecutively:

The Monetary Commission's plan proceeded on the theory of the Bank of England, which leaves the management entirely in the hands of business men without giving the Government any part in the management or control. The strong argument in favor of this theory is that central banking, like any other banking, is based on "sound credit," that the judging of credits is a matter of business which should be left in the hands of business men, and that the Government should be kept out of business. The Aldrich plan, therefore, provided for only a moderate amount of Government control; but on the other hand it restricted the powers of the Central Board and the scope of the branch boards to such a degree, and it proposed so democratic a system of electing directors, that its author hoped to satisfy the nation that the concentrated reserves of the United States and the note issue would be safe in the hands of this National Reserve Association. The Owen-Glass bill proceeds, in this respect, more on the lines of the Banque de France and the German Reichsbank, the presidents and the boards of which are to a certain extent appointed by the Government. The writer is inclined to think that the latter form is the one better adapted to modern nations. These Central Banks, while legally private corporations, are semi-Governmental organs inasmuch as they are permitted to issue the notes of the nation,—particularly where there are elastic note issues, as in almost all countries except England,—and inasmuch as they are the custodians of practically the entire metallic reserves of the country and the keepers of the Government funds. Moreover, in questions of national policy, the Government must rely on the willing and loyal co-operation of these central organs. Much is therefore to be said for the theory of centralizing reserves and note issue in the hands of a semi-official private corporation under a mixed administration of business men and Government appointees, the managing officers being appointed by the Government.

In strengthening the Government control, the Owen-Glass bill therefore moved in the right direction; but it went too far and fell into the other, and even more dangerous, extreme.

In France and Germany the Central Banks are entirely free from any sectional or political color: an officer is appointed on the strength of his qualifications, generally after

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a long training and gradually rising in rank; a director is elected on account of his standing in the business world; all irrespective of their political faith, and they will remain in office according to their merits and independent of whether the liberal or conservative party be in power.

In our country, with every untrained amateur a candidate for any office, where friendship or help in a Presidential campaign, financial or political, has always given a claim for political preferment, where the bid for votes and public favor is ever present in the politician's mind, where class prejudice and antagonism between East and West and North and South run high, in a country so different from these European states, a direct Government management, that is to say a political management, would prove fatal. Moreover, in Europe the banks are not required to furnish the capital of the Central Banks, nor are they obliged to keep balances of such size as will be necessary with us, where the banks and the Government will be the only depositors of the Federal Reserve Banks. The banks, therefore, should be satisfied that the administration will be carried on without bias and upon sound business principles. There can be no doubt but that, as drawn at present, with two cabinet officers members of the Federal Reserve Board, and with the vast powers vested in the latter, the Owen-Glass Bill would bring about direct Government management.

The Owen-Glass Bill provides for the creation of twelve Federal Reserve Banks as against the one National Reserve Association, with fifteen branches, as proposed in the Aldrich Bill. The National Reserve Association is theoretically the simpler, sounder, and, in effect, the more efficient structure. The freest possible return of idle cash into one large reservoir is best assured by a single organ, and its larger strength and uniform policy render feasible the creation of a real discount market and the performance of other functions, such as accumulation or disposition of foreign bills, gold transactions, etc., which are necessary for the safety of the structure.

Moreover, as we shall see later, a single organ of vast strength is in a position to solve in a more effectual way the question of Government bonds and note issue. Messrs. Owen and Glass were moved to adopt the Federal Reserve Bank system, not only because Senator Aldrich had adopted the other, but because the absolute centralization frightened

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a great many who are afraid that in some way or other "Wall Street" might secure the key to this great chest. Although, in the writer's opinion, this apprehension was unwarranted, still this fear existed and had to be taken into account. Moreover, it was thought impossible to have one discount-rate govern the whole country; and justly so.

In dividing the country into separate districts, each having its own Federal Reserve Bank and its own rates, it was hoped to counteract the danger of centralization of power and to render each district independent of the other. It seems that the framers of the law were in the beginning impressed with the idea of creating from twenty-five to thirty such centers, or even a larger number. The longer they dealt with this question, however, the clearer it became to them that the number had to be reduced and, furthermore, that some way had to be found to co-ordinate these separate entities, or rather to subordinate them under the domination of one central power.

It is clear that, if a large number of separate Federal Reserve Banks should be created without any such superimposed organ, instead of having a free back flow of idle cash into one center, we should have competitive hoarding of gold at each central point. This would destroy the basic principle of the plan, which is that the reserves of one part of the country, where there would not be any seasonal demand, should be available for the other, where crops might just be moving. Without a central organ the result would have been that these independent and weak Federal Reserve Banks would have had to depend on the strongest among them for assistance. In other words, New York would have become the center dictating the country's financial policy, instead of having it formulated and carried out by a body of men from all parts of the country, as under the Aldrich plan.

It became apparent then: First, that the number had to be reduced in order to make the units larger, and thereby more independent; and, second, that it was necessary to co-ordinate these units under a Central Board. Thus the number was reduced to fifteen, and later on to twelve, and the Federal Reserve Board was created. While these moves were in the right direction, they did not go far enough, for the proposition as it now stands is not as yet a practicable one. Let us see how it would work.

As an illustration we shall assume that a Federal Re-

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serve Bank is established with the minimum capital, permitted under the law, of $5,000,000 paid in, that is a nominal capital of $10,000,000. This would presuppose a paid-in capital of the banks constituting this Federal Reserve Bank of $50,000,000. Let us assume that the deposits of these banks would amount to five or six times their capital, that is, $250,000,000 to $300,000,000. Of these, 5 per cent. would have to be paid in as balances with the Federal Reserve Banks, that is $12,500,000 to $15,000,000. Of these it should normally have no less than 66 2-3 per cent. in reserve, equal to $8,000,000 to $10,000,000, leaving about 10 per cent. of the capital of the constituent banks, or $4,500,000 to $5,000,000, as available in normal times, and an additional 10 per cent. for special demands; after which the limit of a gold reserve of 33 1-3 per cent. would have been reached. This illustration presupposes that the banks, having paid in 10 per cent. of their capital, would want to reimburse themselves by rediscounting an equal amount with the Federal Reserve Bank, which means that the capital of the latter would be normally invested. But assuming that the capital would be uninvested, the total amount available for the accommodation of the constituent banks would even then be only 30 per cent. of their capital.

This permits of several conclusions: it shows, first, that while the Aldrich plan left entirely optional with the banks the size of the balances to be kept with the National Reserve Association, permitting them to count both balance and lawful money in their vaults as reserve, the Owen-Glass Bill, while correctly stipulating a minimum balance of 5 per cent. of the deposits, errs in setting at the same time a minimum limit also for the amount of actual cash to be kept in the vaults of the banks. From the point of view of strengthening the Federal Reserve Banks, and thereby the banks themselves, the balances with the Federal Reserve Banks, that is their cash holdings, ought to be increased as far as possible. The banks ought to hold only as large or as small an amount of actual cash as they actually need for their daily business, and all unnecessary cash should be deposited with the Federal Reserve Banks. Allowing for an ample supply of till-money, but leaving the determination as to its size to the free judgment of the banks, it is safe to estimate that the aggregate gold holdings of the joint Federal Reserve Banks could be increased

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by some $200,000,000. The joint loaning power would thereby be strengthened by twice that amount. In estimating this increase it has been assumed that an amount equal to at least 2 1-2 per cent. or 3 per cent. of the aggregate deposits could be safely counted upon. In our illustration this would mean that about $7,500,000 would be added to the funds of the Federal Reserve Bank, of which $2,500,000 normally, and a maximum of $5,000,000, would become available for the contributing banks; which would increase the total to 40 per cent. of their aggregate capital. The very object of the law should be to reduce to the smallest possible sum the amount of cash hoarded in the banks and to increase to the largest possible size the concentrated reserves in the Federal Reserve Banks. But it would be a mistake to attempt at this time to do more than to free and to consolidate the cash reserves, now wastefully impounded in the banks. It would be inadvisable to add to these vast sums substantial portions of the cash balances now kept with reserve agents as part of the legal reserves. These balances are now actively employed by the Reserve and Central Reserve Banks; if withdrawn from these banks and replaced by actual cash in vaults, or by balances with the Federal Reserve Banks, the accommodation, heretofore granted to the community by the Reserve and Central Reserve Banks, will have to be provided by the Federal Reserve Banks. That is to say: the regular business done by the banks will have been taken away from them, and the Federal Reserve Banks, which properly should act primarily as reserve institutions, providing the elasticity for extraordinary demands, will have been forced into the normal business, from which they should try to keep away.

Unless it be clearly understood by legislators and banks that the Federal Reserve Banks must not be used in normal times to finance the country to any substantial degree, the latter will fail to serve their purpose, because their funds would not be available when the real " pinch " came.

The balances with reserve agents should therefore be left undisturbed to a certain extent, or if we are to break with the old system of counting one bank's balance with another as a cash reserve, on the ground that such balance really is not cash, then we must concede that our system, as it stands today, implies a reserve of only 6 per cent. for country banks, of 12 1-2 per cent. for Reserve City Banks, and of 25 per

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cent. for Central Reserve City Banks. It is with these actual cash reserves that the nation's banking business has been done, and, if properly organized, we can safely assume that they would be sufficient. No other nation requires cash accumulations or balances with Central Banks of such size.

If the new law eliminates these bank balances as reserves, it ought to provide for a corresponding reduction of the reserve requirements; not to the full measure of these bank balances, because a certain degree of liquidity was assured by the old system, but to a large extent.

It would appear entirely practicable to reduce the reserve requirements of the country banks from 15 per cent. (of which 6 per cent. were in vaults and 9 per cent. with reserve agents) to, let us say, 10 per cent.; of the Reserve City Banks from 25 per cent. (of which 12 1-2 per cent. were in vaults and 12 1-2 per cent, with reserve agents) to 17 per cent.; and of the Central Reserve City Banks from 25 per cent. to 20 per cent.[1] The law should then provide that of these reserves a balance of no less than 50 per cent. would have to be kept with the Federal Reserve Banks. This would mean a minimum of 5 per cent. for country banks, of 8 1-2 per cent. for Reserve City Banks, and of 10 per cent. for Central Reserve City Banks. The writer has, however, no doubt that the balances would in fact be much larger, because there would not be any reason for the banks keeping more cash at home than they actually need for their daily business. On the other hand, the size of the balances generally kept by a bank with the Federal Reserve Bank—and thereby for the benefit of the entire community—would have some bearing on the consideration which, in case of need, may be claimed from the Board of the Federal Reserve Bank. But whether this suggestion be adopted or not, there can be no doubt whatsoever that nothing can be gained by impounding an unduly large amount of cash in the vaults of the individual banks, or by unduly locking up their now free funds. If properly consolidated and organized, the present cash reserves ought to prove sufficient; if linked together in an unsound and inefficient manner, the inclusion of the bank balances will not avail. If, after a few years of active operation, it should become necessary to increase the balances, the law can be

[1] Provided there are only a few Central Reserve cities; if there were more than four or six there would not be any justification in requiring them to keep reserves so much larger than the other cities.

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easily amended to that effect. But it is most important to avoid all unnecessary convulsions at the beginning.

As the law is now framed our illustration has shown that probably eight out of the twelve Federal Reserve Banks, thrown back on their own power alone, would not be able to provide the necessary facilities during seasonable or abnormal demands. The smaller the circle for each Federal Reserve Bank the more acute would be its embarrassment, because the demands of its constituent banks will be simultaneous, the dominating industries of the region not being sufficiently varied. The larger the circle of each Federal Reserve Bank, the stronger must be its own intrinsic power.

But even with larger units than are provided by the Owen-Glass Bill, the law would not achieve its purpose unless it would ultimately bring about a market for bills and bank acceptances and a free and natural interplay of reserves between the various centers. The business normally done by Central Banks must be only a fraction of the aggregate discounting done by the general banks, banking firms, corporations, large and small, and in particular by foreign banks and governments. When the cotton crop is to be moved, not only the Southern Federal Reserve Bank or Banks must provide their limited share, but the local banks in those parts of the country where money is not in as strong a demand during that season should be ready to buy Southern bills. In doing so they would rely on their own ability to rediscount in turn their own short maturities with their Federal Reserve Bank or depend upon the broad market for discounts, in which they could, in case of necessity, resell these bills with their own indorsement. Can such a market, which is an absolute prerequisite for the safety of the entire structure, be developed with a system of twelve Federal Reserve Banks as now proposed? The answer is a most unqualified "No!"

The basis of a discount market is confidence; confidence in its large absorbing power and in its reasonable rates. By "reasonable" I mean to imply rates that can be foreseen by "reasoning," by summing up all the natural influences,—and the extraordinary ones too,—that may contribute to shape money rates in a rising or falling direction. Both these elements would be lacking under the Owen-Glass plan. With twelve discount rates (even though a good many might be generally the same), with twelve competing centers, with

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twelve, conceivably, different discount policies, a large discount market cannot develop. A market develops where purchasers and sellers meet. Locally the majority of the small finance centers will be purchasers; but, as between the various centers, they will on balance almost invariably be sellers. No open discount market will therefore develop in such smaller centers. It could, however, develop in the large centers like New York, Chicago, St. Louis, Boston, Philadelphia, etc., if it were not for the arbitrary powers vested in the Federal Reserve Board.

If, at these large centers, the banks could rely on *a natural* development of the discount rates, they would not hesitate to invest freely in bills instead of keeping their working reserves (not the legal ones) in "on call money"; but what means have they to cast any reasonable prognostication as to the course of such rates? The New York Federal Reserve Bank's position may be very strong and the Federal Reserve Banks at Boston and Chicago may be in an equally good condition. Eastern banks might therefore be quite willing to buy Southern paper at 5 1-2 per cent. while the official Bank Rate of the Federal Reserve Bank at New York presumably might be at 5 per cent. and that at New Orleans at 6 per cent. But here comes the Federal Reserve Board and issues its edicts that the Federal Reserve Banks of New York rediscount $10,000,000 each from the Federal Reserve Banks at New Orleans, Seattle, Kansas City, or, perhaps, Denver, Salt Lake City, Minneapolis, or Duluth. To what extent these requirements will be made and on whom they will be made, whether on New York, Chicago, or Boston, no banker will be able to foretell, nor will anybody know to what points the money may be directed. In the face of such conditions the call-money market will remain the stand-by of the banks; for they will not incur the risk of investing in discounts while the discount rate, instead of developing according to the natural free flow of credit and money, jumps according to the whim of a largely political body. With an election coming—and an election is always coming in the United States—how strong a probability is there that a demand from Seattle or Dallas (be they over-extended or not) for money from the East will be refused? How strong a probability is there, in the face of some political agitation, that a depleted New York would receive money, even were it its own, from the South or the Far West? And even

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if the majority of the men constituting the Federal Reserve Board were entirely free from political considerations (which they cannot possibly be because some are political officers and owe it to their party not to disregard the political aspect of the case), what training, what ability would they command to pass upon these business and banking questions so as to enable them actively to run the banking business of the entire country? For not only is the discount rate of each Federal Reserve Bank "subject to review" by the Federal Reserve Board; not only has this Board the power of throwing the reserves from one part of the country to any other part that it pleases; but the Board will fix at its own discretion the rate at which "Federal Reserve notes" will be "advanced" to the Federal Reserve Banks. To this latter question we shall have to revert later.

While it is true that, by the addition of the Federal advisory council, a very commendable improvement has been made, because through it the Federal Board will have an opportunity of at least learning facts concerning general conditions which otherwise it could not possibly know (though it remains entirely optional with the Federal Board to act on these facts, or rather upon local or political pressure); while it is true, furthermore, that the arbitrary powers of the Federal Board have been somewhat "toned down," none the less, the proper working of the entire system will depend upon the wisdom with which the Federal Board exercises its functions, in particular that of "permitting or, in time of emergency, requiring Federal Reserve Banks to rediscount" paper of other Federal Reserve Banks.

It has been argued with great insistence that the Federal Board should not be clothed with the power of "requiring Federal Reserve Banks" to rediscount for each other; but it is the weakness of the entire plan that without such power lodged in some group of men the whole structure would fall to the ground. With twelve Federal Reserve Banks the *permission* to rediscount for each other is a theoretical option of which they would hardly ever avail themselves. If the Federal Reserve Bank of New Orleans should happen to have a bank rate of 6 per cent., against rates of 5 per cent. in the majority of the other zones, and if the Federal Reserve Bank of New Orleans became crowded, facing the necessity of increasing its rate to 7 or 8 per cent., what

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would happen? Would New England or Pennsylvania or Chicago or New York of their own accord apply for permission to grant a loan? If money should be plentiful in these regions, the boards of these Federal Reserve Banks would argue that their individual constituent banks should take as much paper from the New Orleans banks as they would think safe and good business, but they would not for a moment consider it wise or incumbent upon themselves to weaken the reserve power of their own Federal Reserve Bank for the benefit of the New Orleans Federal Reserve Bank, shouldering thereby a burden which would otherwise fall on the remaining ten Federal Reserve Banks. In order to avoid the semblance of a Central Bank, the structure has been torn into twelve separate entities; but as the majority of these units are unable to stand alone, and as safety lies in union only, there must be some arbitrary power to take the place of the links that are missing in the structure. The further decentralization has gone, where centralization is the end to be sought, the vaster and the more arbitrary those powers must be.

With twelve units, for the deliberation and co-operation of which among each other the law does not contain any provision—excepting the advisory council, which may advise the Federal Board but may not act—the initiative and executive power for any joint or individual action between these Federal Reserve Banks must rest solely with the Federal Board.

This is most unfortunate, because for these seven outsiders, who constitute the Federal Reserve Board—outsiders because, living in Washington, they all stand outside of active business and they cannot possibly ever be in direct touch with the same—it is a problem beyond any man's power to decide wisely which of these twelve Federal Reserve Banks is to receive a rediscount and which of the remaining eleven, and in what proportions, shall grant the same.[1]

[1] The law provides "that the interest charge to the accommodated *bank* (we take this to mean the accommodated *Federal Reserve Bank*) shall be of not less than one nor greater than three percentum above the higher of the rates prevailing in the districts immediately affected." This must be a mistake. If New Orleans's "Bank Rate" is 7 per cent., its Federal Reserve Bank can only take discounts at the uniform rate of 7 per cent.; why then should it sell its assets at 8 per cent. or 10 per

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There will, therefore, be no natural flow of reserve money, nor any free flow of money, into these disconnected discount centers. Important open discount markets will not develop; because neither Europe nor the large American banks will trust a system of this kind, which does not insure a sufficient mobility for commercial paper. Consequently the banks will not be enabled to dispense with their present habit of keeping a substantial proportion of their assets in loans "on call." For the sake of creating some provincial centers, which will be centers only by name, and which, standing alone, will not be able to provide the needed relief, the efficiency of the whole system will have been sacrificed.

But while a system of twelve Federal Reserve Banks will prove a failure, it will be well-nigh an impossibility to reduce the number later on. It is difficult to withdraw privileges once granted, even though their elimination would be of general benefit. On the other hand, it would not be hard, at any time, to increase the number, if this should prove advisable later on. Meanwhile, under a system of a small number of Federal Reserve Banks, discount markets would have developed, and the nation would have an opportunity of judging itself whether or not those were true prophets who predicted that the "discount market" would remove the concentration of money on the Stock Exchange, and whether or not the fear of a "tyranny of credit" will survive under the new system.

There are further phases of this problem that we must consider:

The Owen-Glass Bill contains elaborate provisions for the development of bank acceptances and for dealing in foreign exchange. Both provisions are most appropriate, for without creating an effective machinery covering these two items the law would not achieve its aims.

If we want to finance our own foreign trade, if we want to establish a standard banking paper with a large market at home and abroad, great pains must be taken to develop these

cent. in order to accommodate at 7 per cent. some banks, conceivably those that have expanded too much? If the Federal Reserve Bank of New Orleans can borrow only at 8 per cent., its bank rate should be not only at least 8 per cent., but rather higher in order to keep down the expanding banks of the region and in order to draw money into the dry district from other banks of the United States or Europe.

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bank acceptances (not only those of subscribing banks, but also of our private firms; for the banks alone could not provide all the necessary facilities). The accepting bank receiving a commission of between 1-4 per cent. to 1-2 per cent. for giving its three months' acceptance, the discount rate for bank acceptances will have to be about 1 per cent. to 1 1-2 per cent. lower than the rate for single-named promissory notes. Though it would be better business for the Federal Reserve Banks to buy 45-days paper at, let us say, 5 1-2 per cent., they will have to make it a point to have a private discount rate for bank acceptances of, let us say, 4 per cent. This private discount rate must meet the English, French, and German rates in the world's market, and, unless the Federal Reserve Banks make special efforts to make the American rate reasonably low, no American bank acceptance will take the place of the European ones, no matter how many foreign banks may be established under the American flag.

Which of the twelve Federal Reserve Banks is to carry this burden? They all will want to earn their 5 per cent., for which the margin does not appear to be very large as the bill is drawn at present, and they all will strive to make the surplus earnings beyond 5 per cent. as large as possible, since they are to receive 40 per cent. of such excess. There are several reasons, however, why the 5 per cent. dividend is not as amply assured as it was under the Aldrich plan: (1) under the latter plan, the Treasury money was deposited free of interest, while under the Owen-Glass Bill interests are to be allowed to the Treasury; (2) under the Aldrich plan the profit on over $700,000,000 National Bank notes, which were to be assumed by the National Reserve Association, and the profit on any further note issue, was to go to the National Reserve Association. Under the Owen-Glass Bill the Federal Reserve Banks will have to pay interest on the notes to the Government, so that it may not be sure that any profit will be derived by them from this source. While the National Reserve Association's profit was limited to 5 per cent., the balance going to the Government, the margin was so large that all transactions which were to be done, for the public welfare, with small profit or even at a loss, could be carried out without encroaching on the 5-per-cent. dividend. It is a fair question whether, in view of these conditions and considering the vast

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powers of the Federal Reserve Board to interfere with the profits of the Federal Reserve Banks, the Government should not guarantee a minimum return to the stock-holding banks,—let us say 4 per cent. as maximum and minimum,—and permit the banks to dispose of their stock-holdings at their pleasure, selling the stocks to them above par, and using the premium for the establishment of a surplus fund.[1]

If we review our considerations at this point, we find that the result of the division of the country into twelve Federal Reserve Banks, under the Owen-Glass plan, would be the destruction of a reliable and strong discount market, the weakening of the reserve power of the country, the undoing of the hope of developing on a broad basis the American bank acceptance, and the sacrificing of a strong and efficient foreign-exchange and gold policy. On the other hand, while all these advantages of a frank centralization have been lost, the Owen-Glass plan cannot avoid the same degree of centralization which, however, it brings about by conferring autocratic powers upon a small group of men. And because the technical decentralization into twelve units has gone too far, the individual powers, which are to take the place of the well-knit links of a single organization, must necessarily be too far-reaching. They become a danger to the whole structure and, at the same time, to those who are to be the responsible officers of the Federal Reserve Board.

The remedy is a simple one. If the framers of the Owen-Glass Bill, continuing in the same direction in which they have moved up to the present, will further reduce the number of the reserve centers, the very serious objections to the present law may easily be eliminated.

In the writer's opinion a system of four Federal Reserve

[1] The plan of permitting the Federal Reserve Banks to participate in any profit secured in excess of 5 per cent. does not appear to be sound. It would act as a stimulus toward activity and money-making, where the main duty of these Federal Reserve Banks must be conservatism, and a strong tendency to remain in reserve without any consideration of sacrifice of profits.

It would be better to allow the stockholders a return of 5 1-2 per cent. or 6 per cent., under a liberal system that would permit them to earn this dividend even with the greatest conservatism, than to permit them a share in the excess profits under a narrow system that would rather force them to do business in order to be quite sure of even their 5-per-cent. dividend.

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Banks, with centers at New York, Chicago, St. Louis, and San Francisco, with a Federal Reserve Board at Washington, would under the circumstances form the best possible solution. If it be objected that by such a division New York, which would include New England, would become too strong, a system of six Federal Reserve Banks would still be practicable, though less safe and efficient. Any larger number the writer strongly believes to be pernicious. It may be well to bear in mind that with any further increase in number of the Federal Reserve Banks, New York's weight could not be much reduced, and the larger the number of the Federal Reserve Banks, the more acute will become the disproportion of New York's power as compared with that of the other centers.

Let us contemplate now how a system of four or six Federal Reserve Banks will meet the various difficulties that we have discussed. For simplicity's sake we shall discuss a system of four Federal Reserve Banks, but if six should be decided upon, the argument, though weakened, will still remain the same.

A system of four Federal Reserve Banks would offer to the people a guarantee that New York could not in any way have any direct influence upon the management of the banks in the other parts of the country. (The New York Federal Reserve Bank would embrace New England, New York, New Jersey, Pennsylvania, Delaware, Maryland.) The country would be as safe in this respect as it would be under a system of twelve Reserve Banks. On the other hand, what have we gained? The accumulations of reserve money would be so strong in each of the four centers that a sectional, seasonable demand could be readily taken care of; all the more because with four large units, four powerful administrations with a distinct and strong policy, important discount markets will develop. We should then have a real concentration of reserves and a real mobilization of credit. As to bank acceptances, foreign exchange, government bonds and note issue, these four Reserve Banks could agree upon a joint handling of these (perhaps for a joint account to be based upon the capital of each Federal Reserve Bank). Four large concerns will be able to agree upon a disinterested policy; twelve local Federal Banks, with unequal powers, and naturally more selfish interests, never will. The idea prevails among some critics, that twelve centers will

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take better and fairer care of the country than four. This idea is unfounded. The reverse is the case. The question of the branches of the National Reserve Association and of the Federal Reserve Banks has, in the writer's opinion, never been sufficiently considered in detail. If a free system of transfers from one part of the country to the other is to be established, if balances with Federal Reserve Banks are quickly and easily to be created and used for the purpose of clearing, then all important cities must have branches and all minor cities must at least be within easy reach of a branch. It will be impossible to establish an effective system of transfers of balances with twelve zones, within the boundaries of each of which the easy transfer would remain confined. There are between sixty and seventy cities now that are entitled to branches, or where branches are necessary to cover certain sections. Let us take cities like Cincinnati, Cleveland, Toledo, Columbus, Indianapolis, Detroit, Milwaukee, Minneapolis, St. Paul, Duluth, etc. They all would be entitled to branches, and they all could be branches of Chicago. If we were to pick out one of these and make it a Federal Reserve Bank, the others, almost equal in importance or possibly superior, would fare poorly by becoming tributary to, and dependent on, an organization weaker than Chicago. But this must happen with twelve centers. Moreover, it is hard to imagine that a Federal Reserve City should not become a Central Reserve City. To create twelve Central Reserve Cities would defeat the very idea of Central Reserve Cities; we need not enlarge upon that thought,—but with twelve Federal Reserve Cities we could hardly escape that necessity. By adding San Francisco to the list of the existing three Central Reserve Cities the question might be solved without difficulty with a system of four centers.[1]

[1] With four Federal Reserve Banks one could imagine that each Federal Reserve Bank city would become a Central Reserve City, each city where there would be a branch (and only those) would become a Reserve City. If the accumulation of reserve money with reserve agents is to cease, the main motive in the determination of Central Reserve and Reserve Cities will have been eliminated. On the other hand, the position occupied by a city in the organization of the Federal Reserve Banks will become a very important factor, and inasmuch as there will be a certain concentration of business wherever there will be a branch or a head office, it may be logical to require banks in these centers to contribute in a more substantial degree to the reserves of

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If six centers must be created, we must suppose that New Orleans and some other city, presumably Boston, would have to be added. (But, again, the South, grouped around New Orleans, will be less efficiently provided for than by grouping a larger Southeast around St. Louis. Even New Orleans itself would fare better as an important branch than as a comparatively weak Federal Reserve Bank.) In other words,—to use again our old metaphor, often employed in the last six years,—in order to procure fire protection for the entire community we must provide faucets in as many places as we possibly can (*i.e.*, the branches), but we must concentrate the water so that we may have enough for any emergency. If we cannot concentrate all the water into one central reservoir, let us at least see to it that there will be only a few and large ones. Small reservoirs will quickly run dry, thereby creating consternation, and any other small reservoir, that may be drawn upon, will quickly show the effect, again causing anxiety and, as a consequence, an increased demand. Large reservoirs can stand a drain without an alarming drop of the gage and, if interconnected, they can assist one another without much sacrifice and without creating any convulsion or alarm. Twelve interconnected reservoirs would be a complicated system, inefficient in its results and to be handled only in the most arbitrary and haphazard way.

To insist on a large number of Federal Reserve Banks because, it is argued, reserves ought to be kept where they originate, is a selfish and narrow doctrine. For some charitable minds it may be a comfortable feeling of safety to see their neighbor's house burn down and to shut off from him their own water-supply. But when their own house happens to be on fire they may find some fault with such a system. Moreover, with the key in the hands of a board appointed by the President, they should be able to overcome this provincial point of view.

As to the organization of the four Federal Reserve Banks and the Federal Reserve Board, it would not be difficult, while preserving a similar machinery as now proposed in the Owen-Glass Bill, to begin by organizing the branch boards, which would be responsible to, and under the control of, the boards of the Federal Reserve Banks. The lat-

the nation than the other banks which in the future would constitute the "country banks."

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ter would be constituted from members of the branches, and some members would be appointed by the Federal Reserve Board. Each branch would have a manager to be appointed by the Board of the Federal Reserve Bank. Each Federal Reserve Bank would have a governor to be appointed by the President, from lists to be submitted to him by the Board of the Federal Reserve Banks, which lists the President might return, asking for a new set of names. These Governors would be first-class, expert men, who should receive large salaries in order to render them independent and in order to make the position an attractive one for men of the strongest caliber. The Federal Reserve Board should consist of these four governors, three additional members to be appointed by the President, and to these should be added the Governor-General to be appointed by the President in consultation with a committee consisting of delegates from the Federal Reserve Banks. It should not be difficult upon a basis of this kind to agree upon a constitution of the Federal Board satisfactory both to Congress and to the business community. The Secretary of the Treasury and the Comptroller of the Currency ought to be members of a Board of Supervision.

With units so large and a Federal Reserve Board thus constituted the powers of the latter may remain almost unchanged; but it is submitted, that it may not be necessary to destroy the independent character of each Federal Reserve Bank by making it obligatory for them to rediscount for each other at the request of the Federal Board. If there be only four Federal Reserve Banks, the heads of which are members of the Federal Reserve Board, at which they would meet one another, they may be relied upon to stand by one another of their own free will—in particular if they have to deal jointly with Government bonds, bank acceptances, foreign exchange, and note issue—and the law may be easily amended in case they should not.

In the writer's opinion Cabinet Members should not be members of the active board. It would be safer both for these officers and for the country if men whom duty toward their party compels not to neglect the political aspect of each case should be kept away from this post. Moreover, Secretaries resign, or, in the course of events, they change, whereas it is most important that the members of the Federal Reserve Board should gradually become experts like

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the members of the Interstate Commerce Commission. There are no Cabinet Members on this latter commission, nor are there any on the Supreme Court, with both of which the Federal Reserve Board has been compared. Inasmuch as the Democratic party appears to have set its mind on exclusive Government control, the writer's proposition, as above outlined, bears fully in mind this prerequisite even though he may consider it extreme. The plan as here proposed would not allow a single member on the Federal Board not appointed by the President, none the less, but it would gain the confidence of the business community and overcome its objections, because the four Governors of the Federal Reserve Banks, who would be thoroughly familiar with actual banking and business conditions in their respective zones, would have an opportunity and duty frequently to confer with one another, and would have an important voice in the shaping of the policies of the Federal Reserve Board. The remaining three members would be free from any political pressure. The Democratic party's principles would have been fully respected, and yet grave dangers and defects would be avoided.

But, no matter what conclusion may be reached in this respect, and what form the Federal Board may take, the dangers and iniquities of Government management would materially be reduced by the establishment of only four Federal Reserve Banks. The more the Federal Board is called upon to deal only with composite bodies—that is, a number of varied elements massed together—the more it is protected from political pressure. The local demand would address itself to the Federal Reserve Banks; the Federal Reserve Board at Washington would only deal with questions of policy, applying to groups that would be so large that the divergent interests of the various component parts would in themselves eliminate any provincial color, helping the Federal Board to deal with its problems, without fear or favor, in an absolutely statesmanlike, unbiased way.

A structure of this kind would have the advantage, as against the Monetary Commission plan, that, while there would be among the four Reserve Banks one policy of expansion or of contraction, they could each adapt their rate to their own conditions, as against the uniform discount rate for all the country proposed in the Monetary Commission

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plan. The Federal Board might even have power to permit a Federal Reserve Bank to establish a higher rate for a single branch, when it would appear necessary to curtail a particular over-expanding branch or community, without wanting to affect by a higher rate the entire zone of the Federal Reserve Bank.

A structure of four (or six) Federal Reserve Banks would offer the greatest advantage in dealing with the Government 2-per-cent. bonds and the note issue. With both of these features the Owen-Glass Bill deals in a most unsatisfactory way.

In the first place our currency is already redundant and we would begin with the existing maximum as the minimum, because National Bank Currency, based on Government bonds, does not materially contract. We would provide for a possible increase of $500,000,000, though this limit has now been removed by law, but for a decrease only of $35,000,000 for the first year. The entire National Bank Currency ought to be converted into elastic currency from the beginning. What do we gain by spreading this conversion of bonds and notes over twenty years? There is every argument for a prompt conversion.

The present proposition is unsatisfactory for both the Government and the banks. If we consider that within the last twenty years English, French, and German Government bonds have gone down about 20 per cent., anybody would be a bold man who would dare to foretell at what price United States Government 3-per-cent. bonds will sell within the next twenty years. If the United States should embark upon any national enterprise which would entail a material issue of bonds, the price certainly would go down. Should United States 3-per-cent. bonds sell below par, the National Banks would, of course, not convert. The National Bank note issue, in that case, would remain outstanding for twenty years, when the United States would have to sell a 3 1-2-per-cent. or possibly a 4-per-cent. issue to take the place of the old 2-per-cent. bonds. The present proposition, then, gives the option to the National Banks to convert in case the 3-per-cent. United States bonds sell above par, while, if they sell below, the United States will have to take the loss. This is a poor proposition for the Government; on the other hand, it is the minimum that, in fairness, could be offered to the National Banks.

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The Aldrich plan proceeded on correct lines in converting the 2-per-cent. bonds all at once and in assuming the entire National Bank note issue. It went astray when it provided that these bonds were to be kept from the market for five years and were to be sold only at the rate of $50,000,000 per year after that period. This meant that the National Reserve Association, having assumed over $700,000,000 on-demand obligations, would have had its hands tied if it had been called upon to protect these liabilities—an unsound position.

The problem is not an easy one. If we imagine that after twenty years the National Banks would have disposed of all their bonds to the public, we must expect that, on the other hand, at that period there will be required at least the same amount of circulation as we have to-day (and more according to the increase in population). That means that Federal Reserve Currency will have been permanently substituted for National Bank Currency, let us say to the extent of $700,000,000 to $800,000,000. But currency cannot be issued without something having been given in return for it, which means again that, inasmuch as the Federal Reserve Banks would not own any Government bonds against these outstanding notes, they must have other assets to that extent—that is, mainly, commercial paper. It follows that, in addition to their own capital and part of their deposits, the Federal Reserve Banks would have *permanently* invested about $800,000,000 in commercial paper, and to this we would then have to add the extraordinary and seasonal demands for which $500,000,000 were estimated to be issued, a total of about $1,300,000,000 to $1,500,000,000. This would not be a healthy condition, for *normally* the Federal Reserve Banks should not be so deep in business, they should become such heavy investors in commercial paper only in times of active demand. It would therefore be desirable to find a way of investing several hundreds of millions of dollars otherwise than in commercial paper, provided that these assets would be safe and quickly salable. It is from this point of view that the following suggestion is made.

Let the four Federal Reserve Banks jointly assume the National Bank note issue and let them take over jointly, in proportion to their respective capitals, the 2-per-cent. Government bonds. Let the Government convert half of the amount so taken over into 3-per-cent. 20-year bonds, the

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other half into one-year 3-per-cent. Treasury notes of the United States. As long as their charters last the Federal Reserve Banks would jointly bind themselves, whenever these one-year notes would mature, to buy at par the same amount of new one-year 3-per-cent. Treasury notes. The advantage of this plan is obvious. For the United States it is indifferent whether they issue a twenty-year bond or a one-year bond the renewal of which at par has been guaranteed for twenty years. But the position of the Federal Reserve Banks would be immensely strengthened thereby. For, in case the Federal Reserve Banks found themselves in a situation where they wanted to strengthen their position or create a balance in foreign countries, they could at once sell these short Treasury notes, if not on a 3-per-cent. basis, let us say, even on a 6-per-cent. basis. In serious times the loss incurred would not weigh heavily, because money at home would then be in strong demand and bring more than that rate. By such a sale the price for the long-term Government bonds would not be affected in anxious times, when these could only be forced on the market at great sacrifice and at the risk of tearing down the price of all other securities. On the other hand, these United States one-year Treasury notes,—which might be issued so as to mature half in January and half in July—would be a quick asset, a most suitable investment for the Federal Reserve Banks. With $350,000,000 of such an investment it might be quite safe to preserve the holding of the remaining $350,000,000 in twenty-year bonds. If it should be found that the available liquid means of the Federal Reserve Banks should be permanently increased, it can safely be left in the hands of the Federal Board to dispose of them gradually in favorable times and in quantities that the market will readily absorb.

While the Government, in following this suggestion, would continue to run the risk of having to renew the 3-per-cent. bonds at their maturity on possibly a 3 1-2-per-cent. or 4-per-cent. basis, it would on the other hand preserve its chance of securing the advantage of a sale of the 3-per-cent. bonds above par, in case the investment market should take a favorable turn. It would not grant a one-sided option. Furthermore, the profit on the circulation would from the beginning be received by the Federal Reserve Banks—that is to say by the Government—and the earnings of these Federal Re-

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serve Banks would show an ample margin over and above 5 per cent., the importance of which we have already emphasized.

This presupposes that sound counsel will prevail, and that, in the face of the emphatic protest coming from all parts of the country, the framers of the Owen-Glass Bill will ultimately abandon their intention of letting the Government issue the new notes. One need not be a prophet in order to be able to foretell that this heresy will have the same fate as the 16-to-1 silver standard and the guarantee-of-deposit plan, and that after a few years people will wonder how they could ever have considered seriously so absolutely unsound a theory.

Though, as against its original form, Section 17 of the bill has been materially improved, it still remains a puzzle to the writer how, in practice and in theory, it will work out in any satisfactory way. Is there to be a uniform rate for the "advances" of these Federal Reserve notes? Or will the Government undertake to discriminate between various parts of the country? Is this rate to be different from the bank rate in the Federal Reserve districts?

Neither the constituent banks nor the Federal Reserve Banks, when granting accommodations, can know whether the ultimate customers will use this book-credit for the payment of book-debits (that is, by check), or whether it will be employed to discharge debts that cannot be paid by checks, and whether, consequently, notes will be required. Notes that have been issued to-day may again be turned into book-credits to-morrow. They are interchangeable, and, from the Federal Reserve Bank's point of view, they ought to be treated alike, both as deposit liabilities. To cut these functions in two, to attempt to let the book-credit and the note—twin brothers—be born by two different mothers, is a most anomalous proceeding. But, we must ask, how would it be possible at all for the Federal Reserve Banks to act boldly and comprehensively with their problems, if they cannot rely on being able to provide circulation as long as they are within the limits of the law concerning their cash reserves and collateral? While it is inconceivable that the Federal Board should ever refuse to grant an advance to a Federal Reserve Bank in sound condition, still this arbitrary power given to the board would be a menace, and an unnecessary source of weakness, to the whole structure. Moreover, is

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it at all reasonable that a Federal Reserve Bank should not be in a position to figure what its investments in discounts will return? To illustrate: If a Federal Reserve Bank buys from the Sixth National Bank $100,000 of 60 days' paper at 6 per cent., and the latter draws a check against this rediscount, the Federal Reserve Bank nets 6 per cent. If the Sixth National Bank, or its customer, should draw $100,000 in notes, and if the Federal Board should charge 6 per cent. for "advances," the Federal Reserve Bank would not receive any return at all from the investment. Why punish the Federal Reserve Bank, and indirectly the people, for issuing a legitimate amount of circulation? If the Federal Reserve Bank's earnings above the 5-per-cent. dividend are well assured, the amount charged for the advances will be put from one pocket of the United States Government into the other.[1] If there should be any doubt as to this 5-per-cent. dividend, would it not stand to reason that the Federal Reserve Bank, if it had ample cash reserves, would rather pay out its lawful money than pay for the costly "advance" of Federal Reserve notes? This is, of course, the very last thing the Government ought to encourage, but we can hardly see how this consequence can be escaped under the law as drawn at present.

But these "advances," when carefully analyzed, are nothing but a myth. Sooner or later, but within twenty years, under the Owen-Glass Bill, there will be outstanding $700,000,000 of Federal Reserve notes (which will have replaced the National Bank notes), and in addition such notes as will have to be issued to take care of extraordinary demands, together, let us say, between $1,000,000,000 and $1,200,000,000. Against these notes "which will be the obligation of the United States," the United States will have no assets of their own whatsoever. The Treasury balances, of about $100,000,000, are to serve for certain specified obligations of the Government, and are neither available nor suffi-

[1] As a question of revenue to the Government a tax on note issue is superfluous when the excess earnings go to the Government. If the tax is created for the purpose of acting as a sentimental check on over-expansion—unnecessary, because an effective one is being applied by the bank rates—it ought to be based on *"liabilities"* (comprising deposits and notes issued) and gold cover. But, in a country in which the deposit-and-check system is so highly developed, it would be impracticable to apply the brake on the note issue alone.

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cient for the purpose of securing these Federal Reserve notes. The Government relies absolutely on the Federal Reserve Banks to pay these notes when presented. It has no money to advance to these Federal Reserve Banks and it has no money to pay the Federal Reserve notes when presented. As long as the note is in circulation, the Government kindly grants the "advance"; as soon as the note is presented for payment, the Federal Reserve Banks have to cash it. In other words, if we thread our way through this bewildering maze, it is not the Government that gives the advance, but the public which holds the notes that grants the credit. In other words, it is not the United States upon whom rests the primary obligation, but the Federal Reserve Banks. The United States are the guarantors of the notes, which the Treasury would be called upon to pay only after the Federal Reserve Banks are in default.

Why then not put it into a clear form? Why not let the Federal Board at Washington issue these notes—under the supervision of the Treasury—for the joint account and as the primary and joint obligation of the Federal Banks, the United States, in consideration of the profits to be received and against collateral, as proposed in the Owen-Glass Bill, guaranteeing the notes? It is this the writer makes bold earnestly to recommend. The status of both the Government and the Federal Banks would thereby become clear.[1]

Under the Owen-Glass Bill the Federal Reserve Banks set aside a gold reserve for notes which they have not issued and which do not appear as their liability. The United States Government, on the other hand, is to issue up to $1,200,000,000 of notes, and against these no gold cover would appear on their statement; but as a cover they would show only the indebtedness of the Federal Reserve Banks. There is not sufficient differentiation between contingent and direct liabilities and contingent and direct assets. The Federal Reserve Banks are asked to assume practically the direct obligation for a contingent liability, and the United States figure a contingent asset as a direct asset. The writer proposes to put direct assets and obligations into the same balance-sheet, and the contingent assets into the same balance-sheet with the contingent obligations.

[1] The guarantee by the United States is not a necessity; the notes would be good enough without the same; but as a matter of expediency it would appear wise to follow this course.

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This is not a question of bookkeeping only, it has a most vital bearing upon the question of direct responsibility or contingent responsibility in the management of the Federal Reserve Banks. If the United States issued the notes as their primary obligation, if the Federal Reserve Board fixed any interest rates for these advances, the Government would establish a direct connection and direct responsibility which, as we have shown, it is most important to avoid. If the method suggested by the writer be followed, any political pressure addressed to Congress or to the Executive for a lowering or raising of rates, a freer or less supply of facilities, in any particular part of the country, would be promptly turned off by the statement that while the Government undertakes the responsibility for supervision, for installing an efficient and honest management, it could not have any direct influence upon the business of the Federal Reserve Board or the Federal Reserve Banks.

It is the world's acknowledged theory and practice to keep the obligations of the Central Banks distinct from those of the Government. It would lead too far to present a full argument showing the advantages of the semi-official Central Bank over a direct Government organ. It may suffice here to refer to the gold loans granted in critical times by the Banque de France to the Bank of England, a transaction that in 1907 we should have been only too glad to bring about for the United States, but could not achieve because there were no modern American bills and no central organization. A semi-official organ can bring about a transaction of such kind, which would be hardly compatible with the dignity and the duties of a Government. This is another reason for keeping the Government in a " contingent position," but not in the first line of battle.

History has shown that the Banque de France survived when the Government of France went to pieces; it remained unchanged whether France became an Empire, Commune, or Republic. History has shown that by keeping the Central Banks and the Governments separate entities, they become mutual supports. The Government is a customer of a Central Bank; at times its largest depositor, at times its heaviest borrower. The Government's credit strengthens the Central Bank, the Central Bank strengthens the credit and power of the Government. Where Government credit and bank credit have been mixed up, the consequence has been

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to weaken both. Are the United States, under the Presidency of a man of science, going to throw this universal experience to the wind?[1] The friends of the present administration, and any good citizen, for that matter, cannot too earnestly warn it not to insist on any extreme measure that would antagonize wide circles of business men and the very element through the agency of which alone the benefits of the law can accrue to the people of the United States. While technical parts of the measure will have to be amended as the country develops, it will prove the greatest curse for the nation if the fundamental structure should not become a permanent one. Extreme party policy now applied will bring extreme revision whenever the Democratic party should happen to again become the minority party; and the Federal Reserve Bank, instead of being a rock standing unmoved and unshaken by the waves of party strife, will become its very plaything, a fate to be avoided at all hazards. We cannot set business free by tying it in turn to the chariot of every conquering party. Wise moderation alone will insure the safety and the continuity which are the basis of prosperity.

It is sincerely hoped that amendments on lines as here submitted will be adopted. As the bill stands to-day it is vastly inferior to the plan ultimately submitted by the Monetary Commission. In its present form the Owen-Glass Bill is fraught with serious dangers, and it would not be able to bring about those remedies and benefits that the country is entitled to expect.

The suggestions made in this article take into full account the political requirements of the problem.

A reduction of the number of Federal Reserve Banks from twelve to four would not violate any principle. The demand for Government control would be carefully complied with, and the notes would remain "obligations of the United States," with the difference only that they would express what in essence they are under the law, and that interest charges for "advances" would be eliminated.

In dealing with the 2-per-cent. Government bonds as here proposed, no principle would be involved at all, but the prac-

[1] We cannot dwell here upon the harm and danger that would follow the watering of the United States gold currency, which will militate against our securities and our "discount market."

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tical importance of this change for the safety of the entire structure cannot be overestimated.

Amended on these lines, the writer feels confident that the law, though not ideal, will redound to the benefit of the nation and be a credit to the party under the auspices of which it was created.

The writer deems it wise not to burden this article with a discussion of a number of questions of a more technical nature, preferring at this time to center attention on the main points at issue.

He hopes that it may not be considered a presumption on his part, if, from Europe, after an absence of several months, and out of touch with the general discussion now taking place upon the subject, he ventures to make these suggestions.

But the active interest which he has taken in developing the ideas, on the main lines of which legislation is now proposed, may, he trusts, justify his effort to point out some pitfalls which may prove fatal and which can easily be avoided.

PAUL M. WARBURG.

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THE ORIGIN, PLAN, AND PURPOSE OF THE CURRENCY BILL

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THE more immediate origin of the pending Banking and Currency Bill was in the panic of 1907, the Vreeland-Aldrich Bill, the National Monetary Commission, and the rejected Central Bank plan outlined in the so-called Aldrich Bill.

A brief history of the more remote origin may not be without interest.

In 1900 I had the honor to prepare a plan for the issuance of emergency notes by the United States Treasury against adequate security, under a rate of interest high enough to cause automatic retirement when the exigency passed. It was an adaptation to the American banking system of a principle demonstrated to be sound by European, especially German, experience. This plan was offered as an amendment, by Senator James K. Jones, to the then pending currency bill, but was not accepted by Senator Aldrich, although in 1908 he put in force, in a very defective form, the same principle of finance in the so-called Vreeland-Aldrich Act.

In 1907 a violent financial panic shook the United States from the Atlantic to the Pacific, thousands of banks suspending currency payments, with a shrinkage of property values estimated at from two to five billions of dollars. It was a gigantic national misfortune. It ruined multitudes of worthy men by unmerited disaster, by shrinkage of value, by compulsory liquidation, and by bankruptcy. That the disaster was no worse was due to the sound sense of the American people who ignored a grossly defective statute and manufactured for themselves about five hundred millions of artificial "currency" in the form of clearing-

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house certificates, certificates of deposit, certified checks, cashiers' checks, pay checks, etc., etc., of an estimated volume of five hundred millions. In the mean time the banks had, tied up in their vaults, legal reserves amounting to nearly fifteen hundred millions of dollars, under a reserve law which did not permit these moneys to be used for loans after the reserves of the banks reached the minimum fixed by law. The amendment, above referred to, which I caused to be offered in 1900, and had it been adopted would have made this panic utterly impossible, was fully explained to the United States Senate in discussing the Vreeland-Aldrich Bill.

Growing out of the great disaster of 1907 the Vreeland-Aldrich Bill was passed providing emergency currency, but under numerous and difficult conditions, which made this defective bill of far less value than it might have been. This bill contained some objectionable features, but it did, nevertheless, have one substantial merit,—that after a panic ensued, or was about to ensue, emergency currency could be obtained.

The Vreeland-Aldrich Bill provided for a National Monetary Commission to study the financial system of the United States and ascertain what remedy was necessary to make it serve its high and proper function. Several hundred thousand dollars of *public* funds were expended by this Commission. They gathered a library of over two thousand volumes; they employed experts; they prepared numerous interesting and instructive reports on the banking systems of the various civilized countries of the world, including England, Scotland, Germany, Belgium, The Netherlands, Italy, Austro-Hungary, Switzerland, Sweden, Russia, Canada, Mexico, and Japan, as well as that of the United States, and various interesting compilations relating to the principles of banking, to European exchanges and acceptances, and to the currency systems of the world.

The Commission finally drew a bill known as the Aldrich Bill, which Mr. Aldrich assured the country would provide the necessary relief.

Briefly, this bill proposed to recognize certain important principles, which had been found to be sound, and to furnish relief by providing—

First, the concentration and mobilization of bank reserves.

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Second, elasticity of currency, and

Third, a constant market for commercial paper of a qualified class.

To accomplish these beneficial results, it proposed one great Central Reserve Bank with gigantic powers, recognizing the essential principles above mentioned, but giving the banks (a private interest) control of the proposed Central Bank, a principle not only not essential to public relief, but absolutely intolerable to a free people.

The establishment of a reserve bank system was urged and justified as necessary for the *public* welfare. The information had been obtained at *public* expense. Senator Aldrich, as Chairman, had spent three hundred thousand dollars of *public* moneys on the theory of a great *public* need, and then he attempted to give the control of this tremendous power into the hands of *private* persons, who would have used such power naturally to promote their own *private interests*. Mr. Aldrich utterly ignored the precedents of Europe, which do not permit *private* interests to control the great public reserve banks of Europe: as, for example, the Bank of England, the stock of which is owned by private persons, is nevertheless a great public utility bank, and on whose governing board "no banker, bill broker, or bill discounter" is permitted to sit. For further example, in France, the Governor, the sub-Governor, and all the Managers of the Bank of France are appointed by the Government, because that bank is a great public utility bank, a reserve bank, and an avowed servant of the commerce and industry of France, furnishing money at a low rate of interest and always prepared to accommodate commerce by discounting commercial paper of a qualified class.

In like manner, in the German Empire, the affairs of the Reichsbank, the great governmentally-controlled reserve bank of the Empire, are administered by the Curatorium, consisting of the Chancellor of the Empire, the Prussian Minister of Finance, three members of the Bundesrath, exercising supervisory powers, and the Direktorium, consisting of nine members appointed for life by the Emperor, on the nomination of the Bundesrath. The reason for this governmental management of the German Reichsbank is that it is a public utility bank, conducted not for merely money-making purposes, but as an avowed servant of the

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commerce and industry of the German Empire, prepared at all times to furnish accommodation and to discount commercial paper of a qualified class.

Mr. Aldrich was obviously using the momentum of a great *public* need of concentrating and making mobile the cash reserves of the country, of providing elastic currency, and of providing a constant market for commercial paper, as the means for promoting the enthronement of the *private* but powerful owners of capital in the Nation, thus giving them organized and complete control of the credit system of the United States, and, as a necessary consequence, of the finances, of the commerce, and of the industries of the people of the United States. This fatal defect of the Aldrich plan led to general public disapproval.

During 1910 and 1911 the reports of the Monetary Commission were printed and Mr. Aldrich's plan was tentatively put forth and skilfully presented to the people of the United States by gigantic publicity agencies. He finally presented his bill in concrete public form in Congress in January, 1912. He and others had theretofore urged the plan before various groups of citizens, organizations, Chambers of Commerce, clearing houses, and banking associations throughout the United States.

The meritorious principles involved in the bill, to wit, concentrating and mobilizing the reserves, providing elastic currency and a constant market for commercial paper, did not save the bill, which proved to be unacceptable to the mature public opinion of the United States because it concentrated the control in a few private hands. Although the few gentlemen who ordinarily meet as "the representatives" of the "American Bankers Association" gave their approval to the bill, it was overwhelmingly rejected by the public opinion of the United States, including thousands of bankers, for the obvious and very good reason that the powers of the proposed Central Reserve Bank were placed in the hands of *private* persons, and were not placed where they properly belonged—under the *public* control of the Government of the United States. Even in a Republican Senate, this plan could make no headway.

In the session of Congress of 1912–1913 the Committee on Banking and Currency of the Democratic House of Representatives gave diligent consideration to this great problem. Mr. Carter Glass, as chairman of a sub-committee of

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the Committee on Banking and Currency, gave extensive hearings to the bankers of the country and business men, with a view to legislative action.

Another branch of this committee, under Mr. Pujo, investigated the money trust, taking evidence of over twenty-two hundred printed pages, and presented to the country a most remarkable and startling report, showing a concentration of control of credits and of business properties, through three hundred and forty-one directors of one hundred and twelve corporations, of property exceeding twenty-two thousand millions of dollars.

Immediately that the sixty-third Congress (Democratic) came into power, President Wilson, in a special message, urged that the country be given the necessary relief by the passage of a proper banking and Currency Bill. And the Bill now pending was drawn tentatively by Mr. Carter Glass of Virginia, chairman of the House Committee, the writer, chairman of the Banking and Currency committee of the Senate, consulting with Hon. W. G. McAdoo, Secretary of the Treasury, and with President Wilson, and having expert counsel.

OUTLINE OF THE PENDING BILL

In discussing this Bill before its passage, it should be understood that it is subject to some amendments which at the proper time I shall feel at liberty to urge.

This Bill, as now modified, provides for not less than twelve Federal Reserve Banks under the control of a Federal Reserve Board of seven members, consisting of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, ex-officio members, and four members to be appointed by the President and confirmed by the Senate.

Each Federal Reserve Bank is to be controlled by nine directors, three appointed by the Federal Reserve Board, three elected by the member banks to represent the bankers, who may be bankers, and three elected also by the member banks, who shall not be bankers but fairly representative of the commercial, agricultural, and industrial interests of that district, the latter group being subject to removal by the Federal Reserve Board upon failure to properly perform their public functions.

The Federal Reserve Board is to have the right to fix the

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rate of interest charged by these Federal Reserve Banks, to exercise supervision over them, to furnish them with currency, to place the deposits of the United States current funds with them, and to require them generally to perform the purposes for which they are proposed to be established.

The Bill proposes that the capital stock shall be furnished by subscription of each National Bank in an amount equal to 10 per cent. of its capital stock in cash, with a double liability, and that each bank shall keep its reserve either in its own vault or in the vault of the Federal Reserve Bank, upon the following basis:

The country National Banks, after sixty days from the establishment of the Federal Reserve Bank, will be required to keep 5 per cent. of their deposits, not including savings deposits, in their own vaults, and, for fourteen months, 3 per cent. in the Reserve Banks. Thereafter, for thirty-six months, 5 per cent. in addition to the 5 per cent. in their own vaults is to be kept in the Federal Reserve Bank, and then 2 per cent. additional, either in their own vaults or with the Federal Reserve Banks, making a total of 12 per cent. reserve.

The National Banks in the Reserve Cities will be required to carry as a reserve 18 per cent. of their deposits. One-half of this is to be kept in their own vaults. Sixty days after the passage of the act and for one year, three-eighteenths is to be kept in the vaults of the Federal Reserve Bank, thereafter five-eighteenths, and after thirty-six months, four-eighteenths additional either with the Federal Reserve Bank, or in their own vaults, as they prefer.

The National Banks of the Central Reserve Cities, after sixty days, will be required to carry only 18 per cent. of their deposits, 9 per cent. in their own vaults, 4 1-2 per cent. with the Federal Reserve Bank, and 4 1-2 per cent. either in their own vaults or in the Federal Reserve Bank, at their option. All of the deposits referred to exclude savings deposits.

The effect of this Bill is to leave with their present reserve agents so much of the bank's reserve as is not required to be transferred to the Federal Reserve Banks. The country banks now carry about 25 per cent. reserves on all deposits, including savings deposits.

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Below is a brief table showing the effect of the readjustment of reserves required by the proposed law measured in *millions of dollars.*

7106 COUNTRY BANKS

Present deposits, $3,610.
Required reserve, $541.

Demand deposits (June 4, 1913), $3,157.

	In bank's own vaults	In federal reserve banks	Optional, in own vaults or federal reserve banks	Optional, in own vaults, in other reserve banks, or in federal reserve banks	Total
Bet. 2 & 14 mos.	5%=$157+	3%= $93		4%=$126	12%=$378
Bet. 14 & 36 mos.	5%=$157+	5%=$157+		2%=$63	12%=$378
After 36 months	5%=$157+	5%=$157+	2%=$63		12%=$378

367 RESERVE CITY BANKS

Present deposits, $1,945.
Required reserve, $486.

Demand deposits (June 4, 1913), $1,887.

	In bank's own vaults	In federal reserve banks	Optional, in own vaults or federal reserve banks	Optional, in own vaults, in other reserve banks, or in federal reserve banks	Total
Bet. 2 & 14 mos.	9%=$170−	3%=$56		6%=$112	18%=$340
Bet. 14 & 36 mos.	9%=$170−	5%=$94		4%=$76	18%=$340
After 36 months	9%=$170	5%=$94	4%=$76		18%=$340

52 CENTRAL RESERVE CITY BANKS

Present deposits, $1,568.
Required reserve, $392.

Demand deposits (June 4, 1913), $1,554.

	In bank's own vaults	In federal reserve banks	Optional, in own vaults or federal reserve banks	Optional, in own vaults, in other reserve banks, or in federal reserve banks	Total
After 60 days....	9%=$140	4½%=$70	4½%=$70		18%=$280

PRESENT RESERVES ON HAND, DUE FROM RESERVE AGENTS AND IN REDEMPTION FUND (Report June 4, 1913).

	Required reserves	Active reserves	Specie	Legal tender	Redemption fund	Reserve agts.	Surplus
Country banks.....	$541	$786	$207	$59	$23	$310	$186
Reserve city banks..	486	515	202	40	8	232	32
Central reserve city banks	392	409	315	91	3	...	....
Totals.....	$1,419	$1,710	$724	$190	$34	$542	$218

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TABLE SHOWING CASH ADJUSTMENTS UNDER THE NEW BILL

(All dollars in Millions)

	Cash in bank's own vaults	Credit reserves in federal reserve banks	Optional in own vaults or federal reserve banks
7106 Country banks	$157	$157	$63
367 Reserve city banks	170	94	76
52 Central reserve city banks	140	70	70
7525 Total reserves	$467	$321	$209
One-half estimated from col. 3	104	104	....
Cash capital required	....	105	....
Cash from U. S. Treasury (estimated)	....	210	....
Total cash to federal reserve bank	....	$740	....
Two thirds of $740 being loanable, the actual cash required of the banks would be one-third of $740 less amount furnished by the United States, equal to	36	....	....
Making total actual cash requirement of all 7525 national banks	$607	....	....

To supply this actual cash requirement the banks have on hand, specie, $724, legal tender, $190, a total of $914, or $207 in excess of requirements.

But even this total includes 15% on about $500 of savings deposited against which no reserve is required; and allowing 5% reserve for such savings deposits, in lieu of 15%, would release $50 additional lawful money, or a grand total of 257 millions of specie and legal tender, more than twice as much as the actual cash on hand in the reserve funds of the Banking Department of the Bank of England.

Actual cash available for banks, assuming that half of the optional reserves are retained in their own vaults and two-thirds of federal reserve bank cash is loaned on notes.

7106 Country banks require.....$250 cash for reserves
61 for capital

Total.....$311, and they have $266.
Actual cash deficit, $45

367 Reserve city banks require.....$252 for reserves
26 for capital

Total.....$278, and they have $242.
Actual cash deficit, $36

52 Central reserve city banks require.....$210 for reserves
18 for capital

Total.....$228, and they have $406.
Actual cash surplus $178

Net surplus..$ 97

From the central reserve city banks' surplus the country banks and reserve city banks can draw as they have credit there subject to draft. Moreover, two thirds of $210 in cash, deposited in cash by the United States with federal reserve banks, or $140 in cash, can be obtained by rediscounts, leaving a net cash

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available, surplus of bank reserve cash $97, and $140 cash by discounts from federal reserve banks—a total of $237,000,000 cash, which, on a basis of 18 per cent. reserve, would form a safe basis of 4.55 per cent. times that amount in sound credit expansion, which the country greatly needs at this time.

It is obvious, therefore, that the statement of Mr. James D. Forgan, President of the First National Bank of Chicago, before the Bankers' Conference at Chicago, that there would be a shrinkage of $1,800,000,000 is a dismal apprehension not justified even upon any theory of the case.

The Bill provides that the Federal Reserve Board may issue United States Federal Reserve notes receivable for all taxes, customs, and other public dues, and redeemable in gold or lawful money on demand at the Treasury Department of the United States, in the City of Washington, or at any Federal Reserve Bank. These notes will be protected by collateral security of commercial notes and bills accepted for discount of a qualified class set apart under the control of a Federal Reserve agent appointed as one of the directors of the Federal Reserve Bank, and who serves as the Chairman of the Board. These notes will be protected by 33 1-3 per cent. gold reserves in the vaults of the Federal Bank.

These notes are the notes of the United States, and are intended to be elastic notes, being issued to the banks and retired by the banks in a volume identical with certain commercial paper of a qualified class, thus limited in volume and serving strictly the purpose of an elastic currency, meeting the exigency of commerce.

It is my personal opinion that these notes should be legal-tender notes, in order to give them the fullest possible credit to enable them to be used as reserves by member banks, but not by the Federal Reserve Banks.

The notes of the Bank of England, of the Bank of France, and of the Bank of Germany are legal-tender notes, although they are private institutions. It is of more importance that the Federal Reserve notes should be legal tender, for the reason that they should serve every purpose of actual lawful money. It is obvious that such notes, being limited in volume to actual commercial needs and issued against commercial bills based on actual commercial transactions and having fixed limited maturity, there is no danger whatever of undue or unwise expansion. They will automatically contract with the payment of such notes on their maturity and immediately that the commercial exigency passes.

I am also of the opinion that these notes ought to be redeemable in gold only at the Federal Reserve Bank, since this phase of redemption is sufficient and avoids the neces-

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sity of tying up gold in the Federal Treasury for redemption purposes and, therefore, makes the gold of the country more useful.

These notes, in my judgment, should not be ear-marked, or in any way stigmatized to contract them, that being shown unnecessary.

In order to enable the Government, acting in the national interests, to restrain undue expansion of credits by the banking system of the country, and to safeguard the gold supply of the nation, the Federal Reserve Board has the power to raise the rate of interest, if necessary. It can also stimulate business when the necessity arises, by lowering the rate of interest, as is done by the great reserve banks of England, France, and Germany.

I will not at this time discuss the question of the retirement of the 2-per-cent. Government bonds.

The Bill provides a permissible retirement annually of 5 per cent. of the 2-per-cent. bonds sufficient to prevent these bonds going below par, reissuing 3-per-cent. bonds in lieu thereof, but without circulation privilege, and contemplating an adjustment of the 2-per-cents. at the end of twenty years on a like basis.

I believe that at a later date a better method, without issuing to the banks the proposed 3-per-cent. bonds, may be provided, but the limits of this article will preclude a proper discussion of this subject.

The purpose of the Bill is to concentrate and mobilize reserves and provide elastic currency and a never-failing market at a low rate of interest for commercial paper of short fixed maturities drawn against actual commercial transactions.

At present twenty-five thousand banks, National, State, and private, must each defend itself by its own individual reserve in time of stringency. This causes a dangerous rivalry, a hoarding of current fund for reserves, which leads to alarming the timid depositor and to the danger of withdrawal by such timid depositor of actual cash for hoarding. The timid depositor would have no fear, and the ordinary bank would have no fear if there were a large reservoir of cash reserves always available for use. This is accomplished in the proposed twelve Reserve Banks by providing a capital of something over $100,000,000 in stock and $400,000,000 of reserve deposits with $200,000,000 to $300,-

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000,000 additional of current Government funds, making a total reserve of between $700,000,000 and $800,000,000, always available in a very liquid form, for extending accommodations to legitimate commercial demands by rediscounting for member banks.

This large reserve capital is further supplemented by the right to obtain from the Federal Reserve Board United States currency in quantities sufficient to meet any unusual commercial demand. The great purpose of this system is to make stable the commerce, industry, and finances of the United States, afford a uniform low rate of interest for legitimate commercial purposes, prevent the possibility of panic, and stimulate the activities of the people in manufacture, commerce, agriculture, and various industrial pursuits by removing absolutely the hazard of panics, and giving a national guarantee of stable conditions, so that men may calculate with precision on the future.

Again, the purpose of this Bill is to withdraw the excessive and dangerous use of the reserves of the nation from the speculative market, in stocks, bonds, agricultural, and other products. Under the Bill these above-mentioned reserves would be devoted to legitimate commerce and industry.

Still another great purpose of this system is to enable the United States to protect its foreign commerce and enable its merchants to transfer in fair degree a part of the great exchange market of London, Hamburg, and Paris to American financial centers, but particularly above all to enable the American merchants, manufacturers, and farmers to transact their enterprises upon favorable terms as compared with those of other nations.

A further purpose is to build up a system in this country of acceptances and domestic exchanges upon the improved basis used in the most highly civilized nations of Europe.

Again, it is believed that the Bill will give greater safety to the National Banks of the nation and greater security to the depositors of such banks by protecting the banks against panic, by a more thoroughgoing examination of the banks, and binding them more closely together in a system which will cause them to safeguard each other.

These purposes will all follow as a necessary consequence. Doubtless as this system is put into actual practice the Government will, under the advice of the banks concerned,

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find ways in which to improve this service and make it more efficient. If these reasonable expectations are fulfilled it will give the United States the most gigantic and masterful system of the world.

The Conference of Bankers held in Chicago, August 22 and 23, 1913, at the instance of certain great banking-houses, urged several modifications in the pending Bill.

Their first great objection, and the one upon which they laid the most stress, is that the Federal Reserve Board should consist of eleven members—the seven now included and four additional members to be named by the Federal Reserve Banks. They insist that the banks furnish the capital and the reserves and should, therefore, have a voice in the governmental management of the system.

The simple answer to this is that this is a Government function—the exercising of supervision of the Federal Reserve Banks for the public welfare, including the welfare of the banks themselves—and that no class of private persons has a right to exercise the governing powers of the United States.

The Federal Reserve Board, in fixing the rate of interest, in supervising, inspecting, and safeguarding these banks in their duties toward the general public, is exercising directly a governmental, and not a banking function. It is in a position to require these public institutions to discharge their duty toward the general public. The Reserve Banks are not money-making banks. They are great public-utility banks. They are not intended for private profit, but for the public welfare, to safeguard our national commerce, industries, manufactures, and transportation services against disturbances heretofore arising under a defective banking system, sometimes unwisely administered by the banks.

There is no more reason for allowing the banks to exercise a part of this governing function than there would be to allow the railroads to name certain members of the Interstate Commerce Commission, which was established to regulate the railroads in the public interest. The Chicago beef-packers have just as much right to demand representation in the enforcement of the pure-food act and meat-inspection services which were established to protect the public against the purveyors of food products.

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The next important demand made by the banks is that the Government should not issue the Federal Reserve notes. They urge that the Federal Reserve Banks, controlled by the bankers, should have the right to issue these reserve notes as bank-notes, thus enabling them to control such notes and to expand and contract them as they might see fit. They urge that such notes should not be issued by the United States because it would weaken the credit of the United States. But the volume of the National Currency should not be expanded or contracted by private persons, but by the Government alone. They concede that these notes, secured by short-time commercial paper, drawn against actual commercial transactions, indorsed in every instance by a member bank, safeguarded by the assets of the Federal Reserve Bank, and with a gold reserve of 33 1-3 per cent. against the issue, would be absolutely sound in either contingency, whether issued by the Government or by the banks. This, of course, is true, but it is also true that it would not tax the credit of the United States in the least to issue these notes for the reason that the credit behind them, under any and all circumstances, in peace or in war, would abundantly cover such notes with absolute safety. Behind these notes, which are intended to pass current from hand to hand, by the citizens in dealing with each other, is, in fact, in either contingency, a moral obligation on the United States, to keep them at par with gold. If the 2-per-cent. bonds should go below par and the bank-notes of the country should go to a discount, the banks would be the first to insist that the Government should protect these notes, and whether they did or not, it would be the duty of the United States to see that these notes were maintained at a parity with gold. It is better for the Government, as a matter of economic justice, to issue these notes directly and be responsible for them and exercise the sovereign right of issuing the money of the country, rather than permitting it to be issued and controlled by private persons.

There are various minor matters suggested by the banks, some of which have been already recognized and put in the Bill, such as lowering the reserve required, as well as some others which are meritorious.

The Chicago Conference rather urgently insists that the banks should not be *required* to enter this system, and yet they argue that unless the Bill is modified in the ways they

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demand, the banks will not enter the system. In other words, they demand the right to defeat the purposes of the Government, unless the Government permits them to govern the system in whole or in part. But again it must be urged that no class of private citizens, not even the bankers, can be permitted to govern the people of the United States and that its government must be through its chosen representatives in Congress and in the administrative branch of the Government, and that the banks, under the National Banking system, should be glad to avail themselves of the opportunity of being protected against panic, against financial stringency, and against one another, and ought to be glad to be put in a position where they can properly serve the people of the country under the excellent system which has heretofore been built up by the Government, the defects of which are now about to be remedied.

There is no class of men in the United States who will be more greatly benefited than the bankers themselves, in having the Government of the United States put its gigantic powers behind them, giving them stability, safety, and the widest opportunity for patriotic service.

ROBERT W. OWEN.

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NEW BOOKS REVIEWED

THE LIFE AND CORRESPONDENCE OF PHILIP YORKE, EARL OF HARDWICKE, LORD HIGH CHANCELLOR OF GREAT BRITAIN. By PHILIP C. YORKE, M.A. OXON. Cambridge: at the University Press; Chicago: The University of Chicago Press, 1913.

Philip Yorke, who became Earl of Hardwicke in 1754, was Lord High Chancellor of England from 1737 to 1756—a period covering the greater part of the reign of George II. The work and opinions of the Lord Chancellor have importance both legal and political. During his tenure of office, English law underwent a great transformation—a transformation largely guided and promoted by the Chancellor himself. As a statesman, he appears to have been a steady supporter of the administration and of the Whig policies, a firm friend of Lord Newcastle, a peacemaker, a man of authority and sound sense, not much in advance of his age, but moderate, clear-headed, just. In reading the story of his career and the exposition of his judgments, we obtain a calm, reasonable, contemporary view of the period over which his active life extended. Needless to say, no contemporary view coincides exactly with the final judgments of history; but as a point of departure from which to explore "the devious courses and obscure windings of petty intrigue," and of party politics during the period in question, a tentative acceptance of Lord Hardwicke's attitude is safe and advantageous. He was conscientious and consistent. His accounts of public questions are unwarped by self-interest or eccentricities of judgment, and in reviewing his estimates of men and affairs we need be on our guard only against a conservative tendency and against decidedly Whig predilections, inherited from the period of rampant and dangerous Jacobitism.

The three volumes which contain Lord Hardwicke's life and correspondence form, in short, a complete and somewhat *ex parte* exposition of the opinions of a level-headed, responsible Whig during the reign of George II. The narrative which connects and explains the excerpts from the Chancellor's correspondence takes its tone wholly from the letters. To all intents and purposes, the book might have been written in the eighteenth century—that period which Philip Yorke in his introduction lauds so highly as the "classical age."

That the eighteenth century was a period of great political and industrial progress, and of imperial expansion on the part of England, cannot, of course, be disputed: that it was a truly classical age with respect to literature, manners, and morals, is more or less open to doubt. In fact, the greater our familiarity with the life of the times, the better we learn

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to understand the intense cynicism of Swift. In Philip Yorke's narrative no attempt is made to conceal the evil conditions of the epoch—the venality, the vice, the damp disapproval of zeal, secular or religious. This was the period in which Walpole remarked that he could make a "patriot" at any time by refusing an unreasonable request. It was the period in which Newcastle and others trafficked shamelessly in money and patronage. Yet it was a period, too, in which sentiment held unreasonable sway; for it was to sentiment of a sort that the Jacobites owed all, or nearly all, their strength. Doubtless many a substantial gentleman who drank secretly to "the King over the water" was by no means ready to join the ranks of the Pretender when he advanced upon English soil. In this "age of common sense"—an age in which false sentiment flourished side by side with cynical disregard of decency—men cultivated a stately style of speech, of dress, and of correspondence. But where stateliness is the fashion, pomposity becomes the fad. People who could not spell wrote letters in the periodic style, replete with fulsome compliments and stiff circumlocutions. The literary exercises written at school by Lord Hardwicke's sons sound to modern ears incredibly priggish and Addisonian. It is difficult for all but the most gifted of the Lord Chancellor's correspondents to reach the point of their discourses in less than twice the space a modern would require.

In style, Philip Yorke reflects the dignity and clearness of the eighteenth-century writers without their faults. With the ruling ideas of the age he shows greater sympathy than do most moderns. He thus defends the severity of the then existing criminal laws: "The little importance attached to human life and to human suffering must be regarded, therefore, not as a sign of the brutality of the law, but of the general spirit and civilization of the period. In our own more fortunate and settled times the sense of security is so complete that the more inhuman crimes can now be viewed without fear as accidents of curious and dramatic interest only. . . . But one cannot read far into the records of these times without being convinced that the preservation of life and property and the suppression of disorder and violence among the populace were the principal and most important tasks which confronted the Hanoverian statesmen, and it is one of their chief glories that now were firmly laid the strong foundations of the social order upon which in after years was built the great edifice of empire and progressive well-being." No doubt there is much truth in all this; yet Fielding, a contemporary of Lord Hardwicke's, complained of the indiscriminate severity of the law as both inhuman and ineffective. Thus, the narrative, throughout, is eighteenth century and decidedly Whiggish in tone.

The Whigs of that day, be it remembered, were they who believed that the safety and prosperity of the country lay in the hands of the rich and powerful land-owners, as opposed to King and Commons. The Hanoverian dynasty was of their making, and their business it was at once to support the King, and to limit his power. George II., by turns obstinate and tractable, on the whole served their purposes well, though in their eyes, as abundantly appears, he was a weak, unsatisfactory instrument. George III. escaped from their guardianship altogether, and they promptly despaired of the country's future. A passage in *The Life and Correspondence of Lord Hardwicke* relating to the period immediately follow-

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ing the death of George II., reflects the Whig frame of mind. "It was not, however, until the death of the Old King," writes Mr. Yorke, "that the value of his strong personality and of his capacity for government was thoroughly understood and realized. The misfortunes and confusion consequent upon his disappearance from the scene give the measure of the great services he was rendering to the nation." Continuing, he quotes with approval Mrs. Montagu, who wrote that "if we consider only the evils we have avoided during his late Majesty's reign, we shall find abundant matter of gratitude toward him and respect for his memory," and Burke, who, "writing from the gloom and shadow of the next reign . . . extends this eulogy still further."

Of the conservative Whig party—a party of undemocratic principles, a party of enlightened expediency, and of somewhat narrow views—Lord Hardwicke was a firm pillar. In the necessary political work of the day, which this party performed, he aided powerfully. Among his great achievements is reckoned the cementing of the union of England and Scotland; and it is suggested that if he could have applied his great talents in a similar manner to Ireland, much subsequent difficulty might have been obviated. Always the man to whom his wrangling colleagues turned in time of trouble, he it was who brought about the famous Pitt-Newcastle coalition as well as many other useful agreements; and chosen, as he often was, to remonstrate with the King, he succeeded in keeping the respect of both ministers and sovereign.

Considering his party affiliations and sincere views, it is not perhaps so surprising as at first it may appear to find Lord Hardwicke throughout his long career in the closest association with the Duke of Newcastle. Newcastle, who in the famous Coalition, "gave everything" while Pitt "did everything," is generally represented in history as a cheap corruptionist, glorying in power conferred by the dexterous use of bribes and patronage. Far more favorable is the Hardwickeian view of him. His eccentricity, "nervous emotionalism, fearfulness, fretfulness, want of self-reliance and fortitude" are admitted. On the other hand, "it is unjust to represent him as guided entirely by selfish and ambitious motives in his public life. He was sincerely and firmly attached to the Hanoverian dynasty and the Protestant cause, and he did good and solid service for his country. He consistently resisted, even at the risk of losing power and place, the King's Hanoverian tendencies, conducted foreign affairs in most difficult times, on the whole with wisdom, managed with great success the national finances, and provided for expensive and burdensome wars. Throughout his long tenure of office he maintained a character beyond even the suspicion of corruption."

As friendly to Newcastle, Lord Hardwicke was consistently distrustful of the elder Pitt, whose character, we are told, he thoroughly understood. Plainly he regarded "the Great Commoner" as a dangerous firebrand, a self-seeker, a demagogue. Doubtless no one—not even Lord Rosebery—would undertake to pronounce upon Pitt's sincerity at every moment of his career; yet history, on the whole, justifies his courses, and in the Yorke narrative quite enough is made of his impetuosity and inconsistency. Equally hostile, of course, is the attitude toward Cartaret—an unquestionably able diplomat who played none too scrupulously upon the King's weakness for Hanover and thus interfered with the Newcastle

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plan of salvation for the country. Henry Fox is treated with the contempt he probably deserves.

During the period of real danger from the Jacobites—the period preceding and during the rebellion—the necessity of maintaining a stable government seems to justify the methods of those in power. Still, it is surprising to read the Lord Chancellor's opinion regarding the notorious "Appin murder," which came up for trial soon after the English victory of Culloden. There seems to have been no very solid proof connecting James of the Glen with the murder of Colin Campbell, King's agent upon the forfeited estate of Stewart of Ardshiel; yet the Chancellor writes of James in these terms: "Criminals of this kind are seldom wanting in strong asseverations of their innocence, especially when the evidence against them consists altogether of circumstances; but such proof is often more convincing than positive witnesses, who for corrupt reasons may swear falsely. I hope that the proper officers will take care that the prisoner be kept by himself, free from any resort of company and with low diet, which may perhaps at last induce him to confess his guilt and discover his accomplices." Not a word is said, of course, about the need of propitiating the powerful Campbell clan, and perhaps this motive did not weigh with the Chancellor.

A case belonging to a later period and enlisting greater sympathy is that of another scapegoat, Admiral Byng, who, it seems, should have been allowed to share responsibility for his failure at Minorca with the weak and blundering Newcastle ministry. Instead, he was court-martialed and shot. In the Yorke narrative and correspondence, it is ingeniously argued that Byng was guilty of unwillingness to risk his reputation in behalf of his country—in other words, of treason. Instances of such a nature are indicative of a not unnatural political bias; but the narrative is thoroughly honest, and in forming our opinions we have no difficulty in making whatever allowances are required.

As to the contents of the treatise, it gives a fairly complete account of English affairs, domestic and foreign, covering a period of more than a quarter of a century; it contains letters and documents throwing light upon the negotiations of the time, and includes accounts by eye-witnesses of such famous battles as Fontenoy, Dettingen, and Culloden. The Chancellor's work as a jurist is reviewed, and several of his most important cases are given in some detail. In general it is shown that Lord Hardwicke greatly furthered the "peaceful penetration" of the common law by the principles of equity, while his love of "certainty and repose" operated to prevent confusion in future and distant times. In one case, however—a case involving slavery—his decision shows him to have been at any rate not far in advance of the thought of his age.

Among the many merits which may be justly claimed for *The Life and Correspondence of Lord Hardwicke,* wit is not one of the chief, yet as a young lawyer the Chancellor made at least one contribution to the nonsensical side of *belles-lettres.* Being pressed by a certain judge to confess that he had written a book, he at length acknowledged that he was composing a metrical version of "Coke upon Littleton." Urged to give a sample of his work, he responded thus, making use of some of the judge's pet mannerisms of speech:

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"He that holdeth his land in fee
Need neither to quake nor to shiver;
I humbly conceive, for look, do you see,
They are his and his heirs' forever"

—a stanza that has almost the fatal fascination of "Punch, Brothers, Punch."

In conclusion it should be said that the *Life and Correspondence* corrects errors of previous ill-informed or prejudiced biographers of Lord Hardwicke, and presents an apparently just portrait of a really eminent man, together with a wealth of historical information.

A History of the People of the United States from the Revolution to the Civil War. By John Bach McMaster. Volume VIII. New York and London: D. Appleton & Company, 1913.

The eighth volume of McMaster's *History of the People of the United States* brings the narrative to that period of rapid industrial expansion and violent political conflict which lies between the years 1850 and 1861. Admiration of the author's clear and comprehensive method of treatment, his grasp of diverse problems, and his mastery of the art of compact expression, increases as we see the skill and accuracy with which he traces the many important tendencies of this dynamic and confusing epoch. Politically, public opinion is made the *leit-motif*, and in this way the story of political bickerings and compromises becomes indeed a history of the whole people. By a system of abridged quotation which conveniently does away with repeated pronouns and verbs of saying, we are enabled to realize the parts taken in the great slavery controversy by Calhoun, Webster, Clay, Douglas, Lincoln, all the great men of the day. The discussion broadens from Congress to the press of the whole country; we catch the very ring of popular opinion; we know what the people did and felt, North and South. Quite as full and satisfactory in treatment are those sections of the volume which deal with non-political topics: the rush to the gold-fields in 1849, problems of city government, immigration, the extension of railroads, the Erie War, the labor movement, strikes for a ten-hour day, the woman's rights movement, and a multitude of similarly interesting and important subjects, merging into the tendencies of our own time, are lucidly discussed in a single chapter. Without destruction of balance, the narrative extends, with something more than passing allusion, to such subordinate matters as the teachings of Mrs. Bloomer, the "Rochester Knockings," and the craze for Spiritualism. In the chapter upon "International Entanglements" the revolutionary movement in Cuba is viewed in connection with the European revolutions of 1848; our dispute with Great Britain over the fisheries is explained without exaggeration of its importance, and we are made to understand both the social and political significance of Louis Kossuth's visit to America. The chapter entitled "Eighteen Hundred and Fifty-seven" analyzes not merely the financial panics, but their social symptoms and consequences. A later chapter, "On the Plains," describes the laying-out of the Pacific railroad routes, and even such a matter of strictly minor but curious interest as the importation of

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camels for use on the American deserts finds its proper place in the narrative. Justice is done to the remarkable story of the rise of the Mormon power in Utah and its conflict with the national government.

Including in his narrative every conceivable matter, it would seem, of political or social importance, the author nevertheless succeeds in keeping his historical structure well proportioned, so that his plan is, in a fashion, always before the reader's eye. Never obtruding his personal opinions or his technique as a historian, leaving much to the logic of events, often allowing the significance of a movement or occurrence to be determined by its place in the story and by the amount of space or emphasis accorded it, he economizes attention and stimulates thought. This is "scientific history," truly, yet the narrative has also the human interest of a more or less gossipy "history of our own times." Without the help of a single rhetorical flourish, we are made to feel the passion and the throb of life in the period preceding the War.

A Political History of the State of New York, 1865-1869. By Homer Adolph Stebbins, LL.B., Ph.D. New York: Columbia University; Longmans, Green & Company, agents, 1913.

This interesting monograph, which is the latest of the "Studies in History, Economics, and Public Law," edited by the Faculty of Political Science of Columbia University, traces in great detail the struggle in New York State during the years 1865-1869 between a Republican party divided against itself and a Democracy endeavoring to recover from the blow inflicted upon it by the War. The period in question is that during which the battle was waged between the President and Congress over Johnson's Reconstruction policy. To an exceptional degree the national issues were reflected in New York State, which was the home of two violently opposed groups of Republican leaders—Horace Greeley, Reuben E. Fenton, and Roscoe Conkling, all bitterly hostile to the President; and the triumvirate composed of William A. Seward, Thurlow Weed, and Henry J. Raymond, of whom Raymond defended the Presidential policy in Congress, while Seward and Weed strove to hold the balance against the radicals in the State. In 1866 the central political tendency was the effort to organize a new party upon the basis of Johnson's policy—an effort which found expression in the National Union Convention held at Philadelphia. Graphically the situation is represented in *Harper's Weekly* by a cartoon of Nast's, which shows the Northern and Southern delegates walking into the convention arm in arm, uttering such exclamations as "Charity covereth all," and "Oh, blessed hour!" They are accompanied by a dog and a cat, arm in arm; also a cat and a rat, arm in arm. Running parallel with the Philadelphia movement was the attempt made at Albany in September, 1866, to bring about a fusion of Democrats and conservative Republicans in the State, using Johnson's policy as a platform. Here, Tammany—a chief cause of perturbation in New York State politics—intervenes. The attempt of the Democratic party to outmanœuver the Republican radicals proved unsuccessful. By a ruse the Tammany candidate, who "represented neither the principles nor the purposes of the Philadelphia Convention," was nominated over General John A. Dix, the logical candidate;

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and the ensuing campaign resulted in the election of Fenton, the Republican candidate for Governor. The Philadelphia principle proved doubly disastrous, since its backers lost caste as Republicans. Raymond, as author of the address to the Philadelphia Convention, was read out of the party, and Seward, now growing old, came in for his share of unpopularity through his faithful support of Johnson's policy.

Thus the first distinctive feature of the period from 1865 to 1869 was the attempt of the New York Democracy "to rehabilitate itself and cooperate with the Southern States against Radical Reconstruction, under cover of a union with the Conservative Republicans." The second distinctive feature was the rise of Tammany, culminating in the undoubtedly fraudulent seizure of the State by Tweed in 1869. The author conjectures that, had Seymour and Blair been elected in 1868, certain of the previous Reconstruction acts of the Radical Congress would have been abrogated, and that the readjustment of the difficult situation in the South would have followed more natural lines.

The sources used in this valuable study are chiefly the newspapers of the period, which are somewhat freely quoted. It is as difficult to read the truth through the clash of contemporary opinions as it is to analyze the journalistic judgments of our own day. Nevertheless Dr. Stebbins's monograph is as clear-cut as the nature of the subject permits.

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